



738 Acquoni Road
PO Box 455
Cherokee, NC 28719

August 16, 2024

Audit and Ethics Committee
Tribal Council
Executive Office
Eastern Band of Cherokee Indians
Cherokee, NC 28719

I am attaching the results of our External Quality Assessment conducted by MorganFranklin Consulting. An external assessment is required every 5 years to assess our conformance with the Institute of Internal Auditors International Standards for the Professional Practice of Internal Auditing. The overall opinion expressed is “**Generally Conforms** with the *Standards* and the IIA Code of Ethics.”

I extend my appreciation to the audit staff. This level of conformance demonstrates a clear intent and commitment to achieving the Core Principles for the Professional Practice of Internal Auditing and is reflective of our dedication to serving the Eastern Band of Cherokee Indians in this capacity. In addition to successful internal audit practices, the report offers opportunities for continuous improvement which we embrace to enhance our work.

Thank you for your support of our office. If you have questions regarding the report, please contact us at 828-359-7030.

Regards,

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





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CONSULTING A Vaco
Company

Internal Audit External Quality Assessment Report

Eastern Band of Cherokee Indians

July 15th, 2024

Cover Letter

Sharon Blankenship
Chief Audit and Ethics Executive
Eastern Band of Cherokee Indians
738 Acquoni Road
Cherokee, NC, 28719

July 15th, 2024

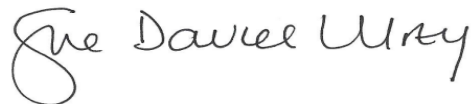
Dear Sharon,

The International Standards for the Professional Practice of Internal Auditing (Standards) requires that an external quality assessment review (EQA or QA or QAR) of an internal audit activity must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organization.

We have completed the External Quality Assessment of Eastern Band of Cherokee Indians Internal Audit and Ethics Department (Internal Audit and Ethics) and provided our conclusions in this report. Our conclusions were based on information made available through July 15th, 2024, when fieldwork was substantially completed and apply only to Eastern Band of Cherokee Indians.

In acting as an external assessor, I am fully independent of Eastern Band of Cherokee Indians and have the necessary knowledge and skills to undertake this engagement.

We thank you, your staff, Audit Committee, and executive management for the support and assistance for this assessment. If you have questions or concerns, please do not hesitate to contact us.



Sue Ulrey
Executive Director, Risk Advisory
Susan.Ulrey@morganfranklin.com

Direct: 202.796.1539 | Mobile: 317.501.5321



OBJECTIVES AND SCOPE

5

METHODOLOGY

6

RESULT AND CONCLUSION

7

IIA STANDARDS CONFORMANCE

8 - 18

- GAPS TO CONFORMANCE WITH THE STANDARDS OR THE CODE OF ETHICS
- HIGHLIGHTED INTERNAL AUDIT PRACTICES

OPPORTUNITIES FOR CONTINUOUS IMPROVEMENT

19 - 22

APPENDIX A - CONFORMANCE RANKINGS

23



OBJECTIVES

The Standards require that an EQA of an internal audit activity must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organization. The qualified assessor or assessment team must demonstrate competence in the professional practice of internal auditing and the EQA process. The EQA can be accomplished through a full external assessment or a self-assessment with independent validation.

At the request of Eastern Band of Cherokee Indians Internal Audit and Ethics, MorganFranklin Consulting (MFC) performed a full external assessment of Eastern Band of Cherokee Indians Internal Audit. MFC performed this assessment relative to leading practices for public and private company internal audit functions, recognized professional standards for internal auditing, and applicable benchmarking data.

- The primary objective of the EQA was to assess Eastern Band of Cherokee Indians Internal Audit's conformance with the Standards and the Code of Ethics and identify any gaps to conformance.
- MFC evaluated Eastern Band of Cherokee Indians Internal Audit's effectiveness in carrying out its mission (as outlined in the internal audit charter and expressed in the expectations of Eastern Band of Cherokee Indians management) and highlighted the internal audit practices that were demonstrated by Eastern Band of Cherokee Indians Internal Audit.

SCOPE

The scope of the EQA included Eastern Band of Cherokee Indians Internal Audit and Ethics, as outlined in the internal audit charter, which defines its purpose, authority, and responsibility. The EQA was concluded on July 15th , 2024, and provides senior management with information about Eastern Band of Cherokee Indians Internal Audit and Ethics as of that date. The Standards and the Code of Ethics in place and effective as of July 15th , 2024, were the basis for the EQA.



METHODOLOGY

This assessment focused on the key aspects of Eastern Band of Cherokee Indians Internal Audit's performance, including the positioning of Internal Audit within the organization, and Internal Audit staff, management, and processes. At the request of MFC, Eastern Band of Cherokee Indians Internal Audit compiled and prepared information in advance of the fieldwork portion of the EQA. Eastern Band of Cherokee Indians Internal Audit provided requested information in a detailed planning document checklist and answered questions related to internal audit governance, risk assessment methodology, communications, reporting, staff, management, and processes.

Before the commencement of the fieldwork portion of the EQA, the Assessor held a preliminary meeting with the Chief Audit and Ethics Executive and executive management to discuss the status of the preparation of planning materials, identification of key stakeholders to be interviewed during the fieldwork portion of the review, and finalization of logistics related to the EQA. Eastern Band of Cherokee Indians Internal Audit identified key stakeholders (Senior Executives & Audit Committee Chair) for the interview portion of the assessment. In addition, Internal Audit management and staff provided feedback by responding to a confidential survey of which the results were tabulated.

To accomplish the objectives, MFC:

- Reviewed information prepared by Eastern Band of Cherokee Indians Internal Audit at the Assessor's request,
- Conducted interviews with five key stakeholders, including Eastern Band of Cherokee Indians senior executives and the Audit Committee Chair,
- Reviewed a sample of three internal audit projects and associated work papers and reports that were conducted in 2023 & 2024,
- Reviewed two sets of Audit and Ethics Committee materials from April 2023 and December 2023,
- Reviewed Eastern Band of Cherokee Indians Internal Audit documentation,
- Reviewed Eastern Band of Cherokee Indians Internal Audit policies and procedures,
- Collated survey data received from Internal Audit management and staff, and
- Prepared diagnostic tools (e.g., checklists, survey tools, report templates) that are consistent with the methodology established for an EQA in the *Quality Assessment Manual for the Internal Audit Activity*.



RESULTS

MFC concluded that, overall, the Eastern Band of Cherokee Indians Internal Audit and Ethics *Generally Conforms* to all the Standards and the Code of Ethics. See Appendix A for the Conformance Rankings criteria.

Attribute Standards (1000 through 1300)		GC	PC	DNC
1000 - 1300	Purpose, Authority, and Responsibility/Independence and Objectivity/Proficiency and Due Professional Care/Quality Assurance and Improvement Program		X	
Performance Standards (2000 through 2600)		GC	PC	DNC
2000 - 2600	Managing the Internal Audit Activity/Nature of Work/Engagement Planning/Performing the Engagement/Communicating Results/Monitoring Progress/Communicating the Acceptance of Risks	X		
Code of Ethics		GC	PC	DNC
-	Code of Ethics	X		

CONCLUSION

GENERALLY CONFORMS

MFC’s overall opinion is that the Eastern Band of Cherokee Indians Internal Audit *Generally Conforms* to the Standards and the Code of Ethics. No material identified gaps to conformance with the Standards or the Code of Ethics were identified.



IIA STANDARDS CONFORMANCE

Attribute Standards (1000 through 1300)		GC	PC	DNC
1000	<p>Purpose, Authority, and Responsibility The purpose, authority, and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with the Definition of Internal Auditing, the Code of Ethics, and the Standards. The chief audit executive must periodically review the internal audit charter and present it to senior management and the board for approval.</p>		X	

GAPS TO CONFORMANCE WITH THE STANDARDS OR THE CODE OF ETHICS

The Internal Audit and Ethics Charter is required to be reviewed at least annually by the Audit and Ethics Committee. Senior management is not included in the review and is not required to approve the Internal Audit and Ethics Charter.

HIGHLIGHTED INTERNAL AUDIT PRACTICES

- The Internal Audit Charter has not been recently updated, reviewed, and approved by the Audit and Ethics Committee.
- The Internal Audit Charter is required to be reviewed and approved annually, by the Audit and Ethics Committee.
- The Internal Audit Charter includes all necessary and required elements.



Attribute Standards (1000 through 1300)		GC	PC	DNC
1100	Independence and Objectivity The internal audit activity must be independent, and internal auditors must be objective in performing their work.	X		

GAPS TO CONFORMANCE WITH THE STANDARDS OR THE CODE OF ETHICS

None

HIGHLIGHTED INTERNAL AUDIT PRACTICES

- The Chief Audit and Ethics Executive reports functionally to the Audit and Ethics Committee and administratively to the Executive Committee.
- Internal Audit reports to an appropriate level in the organization that allows the department to fulfill its responsibilities.
- The Chief Audit and Ethics Executive has unrestricted access to the Audit and Ethics Committee.
- The Chief Audit and Ethics Executive meets with the Audit and Ethics Committee Chair post quarterly committee meetings during executive sessions and can contact the Committee Chair for any immediate concerns.
- The Audit Committee Charter contains all the required elements pertaining to oversight of Eastern Band of Cherokee Indians' Internal Audit.



Attribute Standards (1000 through 1300)		GC	PC	DNC
1200	Proficiency and Due Professional Care Engagements must be performed with proficiency and due professional care.	X		

GAPS TO CONFORMANCE WITH THE STANDARDS OR THE CODE OF ETHICS

None

HIGHLIGHTED INTERNAL AUDIT PRACTICES

- Eastern Band of Cherokee Indians Internal Audit performs their duties with proficiency and due professional care:
 - Currently, the Internal Audit Department consists of two staff members, the Chief Audit and Ethics Executive, who is a CIA, CGAP, CFE, and LPEC and a Senior Internal Auditor who is an Internal Audit Practitioner and is currently working toward completion of their CIA.
 - The Chief Audit and Ethics Executive applies procedures to ensure that competent third parties provide quality specialized audit engagements.
 - The Chief Audit and Ethics Executive supports continuing education and tracks training hours for the staff. During the 2024 fiscal year, on average each staff member has completed 53 hours of training in line with leading practices of 40-60 hours per year.
 - Internal Audit staff are evaluated annually based on technical skill, quality of work, dependability, adaptability, teamwork, productivity, communication and professional development.
 - Job descriptions are well-defined and reviewed by the Chief Audit and Ethics Executive.



Attribute Standards (1000 through 1300)		GC	PC	DNC
1300	<p>Quality Assurance and Improvement Program The chief audit executive must develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity and continuously monitors its effectiveness. This program includes periodic internal and external quality assessments.</p>		X	

GAPS TO CONFORMANCE WITH THE STANDARDS OR THE CODE OF ETHICS

Due to staffing constraints, periodic internal assessments of the Internal Audit and Ethics Department’s performance are performed when they can be completed, and reliance placed on the external assessment, given the independent nature of the review.

HIGHLIGHTED INTERNAL AUDIT PRACTICES

- Eastern Band of Cherokee Indians Internal Audit:
 - Meets the professional requirement to conduct an independent external assessment within the timeline expectations. Due to extenuating circumstances that caused delays in securing a vendor, the last independent and objective external assessment was performed six years ago.
 - Reports results of independent external assessments to the Executive Committee and the Audit and Ethics Committee.
 - Tracks recommendations received from external assessors and implements changes where feasible.



External Quality Assessment

DETAILED OBSERVATIONS

Performance Standards (2000 through 2600)		GC	PC	DNC
2000	Managing the Internal Audit Activity The chief audit executive must effectively manage the internal audit activity to ensure it adds value to the organization.	X		

GAPS TO CONFORMANCE WITH THE STANDARDS OR THE CODE OF ETHICS

None

HIGHLIGHTED INTERNAL AUDIT PRACTICES

- Eastern Band of Cherokee Indians annual risk assessment and audit planning process is clearly defined in Internal Audit and Ethic’s Policy and Procedures.
- The annual risk assessment and audit plan contain the following practices:
 - Assesses overall risk of all auditable areas based on financial risk, exposure risk, complexity, program changes, fraud susceptibility, and prior audits.
 - Requests from senior management are considered as part of the risk assessment.
 - Documents the methodology utilized and obtains Audit and Ethics Committee formal approval of the annual audit plan.



Performance Standards (2000 through 2600)		GC	PC	DNC
2100	Nature of Work The internal audit activity must evaluate and contribute to the improvement of governance, risk management, and control processes using a systematic and disciplined approach.	X		

GAPS TO CONFORMANCE WITH THE STANDARDS OR THE CODE OF ETHICS

None

HIGHLIGHTED INTERNAL AUDIT PRACTICES

- The annual audit plan includes compliance, ethics, and IT-related engagements.
- Changes to the annual audit plan are approved by the Audit and Ethics Committee.
- Eastern Band of Cherokee Indians Internal Audit has an effective role in the organization's control environment.



Performance Standards (2000 through 2600)		GC	PC	DNC
2200	Engagement Planning Internal auditors must develop and document a plan for each engagement, including the engagement’s objectives, scope, timing, and resource allocations.	X		

GAPS TO CONFORMANCE WITH THE STANDARDS OR THE CODE OF ETHICS

None

HIGHLIGHTED INTERNAL AUDIT PRACTICES

- Eastern Band of Cherokee Indians Internal Audit and Ethics have a clearly defined methodology for performing audits.
- Eastern Band of Cherokee Indians Internal Audit and Ethics documents risks, audit timing, audit objective, scope, and other key planning items for every audit.
- Audit planning activities are formally documented in Internal Audit and Ethic’s Policy and Procedures.

Performance Standards (2000 through 2600)		GC	PC	DNC
2300	Performing the Engagement Internal auditors must identify, analyze, evaluate and document sufficient information to achieve an engagement's objectives.	X		

GAPS TO CONFORMANCE WITH THE STANDARDS OR THE CODE OF ETHICS

None

HIGHLIGHTED INTERNAL AUDIT PRACTICES

- Eastern Band of Cherokee Indians Internal Audit and Ethics identify key information based on associated risks and through discussions with management. Sufficient information is obtained, reviewed, and documented for all audits.



Performance Standards (2000 through 2600)		GC	PC	DNC
2400	Communicating Results Internal auditors must communicate the results of engagements.	X		

GAPS TO CONFORMANCE WITH THE STANDARDS OR THE CODE OF ETHICS

None

HIGHLIGHTED INTERNAL AUDIT PRACTICES

- Eastern Band of Cherokee Indians Internal Audit has the following internal audit practices related to communicating results:
 - Clearly defined reporting process including standard Audit Report distribution documented in Internal Audit and Ethic’s Policy and Procedures.
 - Internal Audit and Ethics summarizes, communicates, confirms findings and obtains management action plans prior to the issuance the final Audit Report.
 - Final communication of engagement results includes applicable conclusions, as well as management action plans.



Performance Standards (2000 through 2600)		GC	PC	DNC
2500	Monitoring Progress The chief audit executive must establish and maintain a system to monitor the disposition of results communicated to management.	X		

GAPS TO CONFORMANCE WITH THE STANDARDS OR THE CODE OF ETHICS

None

HIGHLIGHTED INTERNAL AUDIT PRACTICES

- Eastern Band of Cherokee Indians Internal Audit has the following internal audit practices related to monitoring progress:
 - Issues are monitored manually via spreadsheets through completion.
 - Issue status updates are periodically communicated to the Audit and Ethics Committee and Senior Management via quarterly reports and annual follow-ups.



Performance Standards (2000 through 2600)		GC	PC	DNC
2600	<p>Communicating the Acceptance of Risks When the chief audit executive concludes that management has accepted a level of risk that may be unacceptable to the organization, the chief audit executive must discuss the matter with senior management. If the chief audit executive determines that the matter has not been resolved, the chief audit executive must communicate the matter to the board.</p>	X		

GAPS TO CONFORMANCE WITH THE STANDARDS OR THE CODE OF ETHICS

None

HIGHLIGHTED INTERNAL AUDIT PRACTICES

- The risk assessment and resulting annual audit plan are both reviewed and approved by the Audit and Ethics Committee. Significant issues are flagged and discussed with senior management.

Code of Ethics		GC	PC	DNC
Code of Ethics		X		

GAPS TO CONFORMANCE WITH THE STANDARDS OR THE CODE OF ETHICS

None

HIGHLIGHTED INTERNAL AUDIT PRACTICES

- Eastern Band of Cherokee Indians Internal Audit abides by the IIA Code of Ethics.





OPPORTUNITIES FOR CONTINUOUS IMPROVEMENT

KEY STAKEHOLDER ENGAGEMENT - Management Communication

- Relationships are key to the success of any Internal Audit and Ethics function. Interview feedback suggests strong support for the value that Internal Audit and Ethics brings to the organization and that increased collaboration and communication would benefit all parties.
- Best practices also suggested areas where engagement could be strengthened to allow for more frequent and valued communication and engagement. The sharing of information allows for valuable insights to be garnered by all parties and assists further alignment and allows for Internal Audit and Ethics to be viewed as a trusted partner.
- **Management Status Reporting** Consider strengthening reporting of the results of audit activities with senior management. Ensure there are regular at least monthly meetings with management to ensure stakeholders are aware of the department's operations.
- **Management Insights and Perspectives** Consider obtaining and incorporating managements insights and perspectives into key activities such as Charter updates, Risk Assessments and Annual Planning.
- **Client Feedback** Consider obtaining feedback from the Auditee as it creates an opportunity to identify successes and areas of opportunity. These themes can then be shared with the team members, senior management and The Ethics and Audit Committee and can be used to support the self-assessment activities.



INTERNAL AUDIT DEPARTMENT - Development and Maturity

- Consider increasing opportunities for Internal Audit and Ethics staff to develop and enhance their knowledge across relevant technology tools and software to address top technology risks across the organization (Cyber, security, digital, AI, and analytics).

RISK ASSESSMENT PROCESS - Continuous Monitoring and Insights

- Internal Audit and Ethics may consider formalizing and incorporating key conversations held with executive leadership and senior management throughout the year as part of a more dynamic risk assessment process to monitor changes in qualitative risk factors, (e.g., change in management personnel, key projects, new products and technology, economic environment).
- Internal Audit and Ethics should consider obtaining and incorporating input from senior management through formal/informal discussions as part of the annual risk assessment, audit planning process and results communication processes. Interview feedback suggests that increased communication would be welcomed and valued.
- Leveraging data analytics tools as part of the annual risk assessment and ongoing risk monitoring processes may provide opportunities for Internal Audit and Ethics to more effectively and efficiently monitor organizational risks, identify irregularities and fraudulent activity.

INTERNAL AUDIT - Succession Planning

- IA succession planning could be updated to determine Internal Audit and Ethics' short and long-term resource planning and skills requirements in the event of loss of key talent.



Performance Metrics and Measurement

- Current performance evaluation methodologies could be enhanced to develop and incorporate additional department metrics to more effectively assess performance and better identify opportunities for quality, efficiency and effectiveness improvement and demonstrate the department's value to the organization.
- Performance metrics/success criteria for staff could be enhanced to include opportunities for use of continuous monitoring and data mining/analytics during audits.

Quality Assurance and Improvement Program

- Internal Audit and Ethics may benefit from the implementation of formal periodic self-assessments on a consistent basis to evaluate performance and identify improvement opportunities that can be addressed thematically and immediately. Improvement opportunities should be tracked through to completion and shared with Senior Management and the Audit and Ethics Committee.





APPENDIX A

The Institute of Internal Audit (IIA) *Quality Assessment Manual for the Internal Audit Activity* has a scale of three rankings when opining on the internal audit activity:

GENERALLY CONFORMS	<p>The Assessor or the assessment team has concluded that the relevant structures, policies, and procedures of the activity, as well as the processes by which they are applied, comply with the requirements of the <u>individual</u> standard or elements of the Code of Ethics in all material respects. There is general conformity to a majority of the individual standard or element of the Code of Ethics and at least partial conformity to the others within the section/category for the sections and significant categories.</p> <p>There may be substantial opportunities for improvement, but these should not represent situations where the activity has not implemented the <i>Standards</i> or the Code of Ethics and has not applied them effectively or achieved its stated objectives. As indicated above, general conformance does not require complete or perfect conformance, the ideal situation, successful practice, etc.</p>
PARTIALLY CONFORMS	<p>The Assessor or assessment team has concluded that the activity is making good-faith efforts to comply with the requirements of the <u>individual</u> standard or elements of the Code of Ethics or a <u>section</u> or <u>major category</u> but falls short of achieving some significant objectives.</p> <p>These will usually represent substantial opportunities for improvement in effectively applying the <i>Standards</i> or the Code of Ethics and attaining their objectives. In addition, some deficiencies may be beyond the control of the internal audit activity and may result in recommendations to senior management or the organization's Board.</p>
DOES NOT CONFORM	<p>The Assessor or assessment team has concluded that the internal audit activity is not aware of, is not making good-faith efforts to comply with or is failing to achieve any or all of the objectives of the <u>individual</u> standard or element of the Code of Ethics or a <u>section</u> or <u>significant category</u>.</p> <p>These deficiencies will usually significantly negatively impact the internal audit activity's effectiveness and potential to add value to the organization. However, these may also represent significant opportunities for improvement, including actions by senior management or the organization's Board.</p>

