

OFFICE OF INTERNAL AUDIT AND ETHICS

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October 25, 2024

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

The Office of Internal Audit and Ethics conducted a follow up review on the Investments audit report 24-002, dated May 6, 2024. The purpose of this follow up review is to determine the status of the recommendations. The status is reported by management with one of the following categories:

- **Implemented** – adequately addressed by implementing corrective action that is in place and functioning
- **Partially Implemented** – initiated with 50% or more progress
- **Started** – initiated with less than 50% progress
- **Not Implemented** – no action taken or started
- **Withdrawn** – no longer exist because of changes in processes or the risk is accepted by management and approved by the Audit and Ethics Committee

Limited audit work was performed on select findings to verify management's assertion. If it could not be verified, the status was adjusted accordingly. The reported status of the **6** recommendations is as follows: **3 (50%) Implemented, 2 (33%) Partially Implemented, and 1 (17%) Started**. The details of this follow up review can be found in the attached audit report summary.

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

Sincerely,

A handwritten signature in blue ink that reads "SBlankenship".

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

cc: Lori Lambert, Audit and Ethics Committee Chair
Susie Wolfe, Accounting Director
Lavita Hill, Treasury Specialist
Jimmy Burns, Investment Committee Chair



Investments (24-002)

Compliance

May 6, 2024 Follow Up Date: October 25, 2024

Background and Scope:

EBCI has several investment funds in place with a total approximate value of \$1.6 billion. The funds, which include the Endowment I Fund, Endowment II Fund, Debt Service Sinking Fund, Reserve for Minors and Incompetents Fund, Sovereign Wealth Fund, Cherokee Central Schools Reserve Fund, and the Education Endowment, each have unique investment goals and objectives which are documented in individual Investment Policy Statements (IPS), as well as Cherokee Code. To ensure compliance with IPS requirements, the Tribe utilizes an investment management team which is comprised of EBCI Office of Budget & Finance employees and external investment consultants. In addition, an Investment Committee, appointed by EBCI Tribal Council, is tasked with fiduciary oversight of the portfolio.

The objective of the audit were to evaluate the controls and processes over total portfolio management and performance reporting reviews.

Overall Conclusion:

There are **6** observations of opportunities for improvement

Initial Follow Up:

3	50%	Implemented
2	33%	Partially Implemented
1	17%	Started
		Not Implemented
		Withdrawn
3	50%	Open Observations



Observation	Recommendation	Management Response	Risk	Implementation Status	Percent (%) Complete	Explanation
Investment Committee Responsibilities - meeting minutes were not sufficiently documented	Evaluate the process to document meeting minutes to ensure meetings are properly documented and reflective of actions taken. The committee should consider utilizing a minute taker, if one is not already appointed, who is responsible for ensuring discussions and action items taken during the meeting are well reflected in the minutes. The Investment Committee should ensure the minutes help support compliance with key responsibilities as required in the various IPS statements.	Disagree. I agree that the minutes do not reflect a group discussion about Investment performance and I agree to record more details around the conversation with consultants. However, I disagree with the remaining observations. The Investment Committee meets twice a month and performs due diligence on each consulting group annually. During meetings, action-based minutes are recorded. This means whenever there is an action taken by the committee, the committee votes to approve or deny that action. The vote is recorded in the minutes. If any consulting group makes a recommendation, then that is recorded in the minutes and the committee votes to approve or deny recommendations. However, this is not a common occurrence. As for Trade Authorizations, these are handled through the Finance department. A consultant sends the trade authorization to the Treasury Specialist, then she gets approval from the Accounting Director to complete the transaction. Lastly, the Investment Committee meets with each consultant monthly to review performance, recommendations for fund or investor changes, and get market updates. Annually, special called meetings occur - Due Diligence - where the Investment Committee meets with the consultant and fund managers for a more in-depth review of accounts.	High	Implemented	100%	"During all meetings, I record the discussions as well as the actions in each meeting. Before I was focused only on the action parts of meetings, but I've been sure to document more of each discussion as well."
Trade Authorization Internal Controls - did not receive supporting documentation to test trade authorizations to ensure proper segregation of duties were in place	Ensure that the trade authorization process is fully documented for all transactions and complete records should be retained to support the transactions. The department should document trade authorization procedures in each of the investment policies or as an appendix to each of the investment policies that align with custody bank procedures	Agree. The Treasury Department does not have written policies and procedures that govern how trade authorizations are handled. There are strict internal controls but they aren't written down and are not included in the fiscal management policy. The current method is only the Treasury Specialist can initiate a Trade Authorization. The Accounting Director must approve that Trade Authorization then it is sent to the custody bank. The custody bank then calls the Finance Director to confirm the trade. Lavita and Susie will write down the current internal controls so anyone can follow how trade authorizations are handled. There are authorized initiators and approvers for each custodian bank, but these aren't documented. The written policies and procedures will include assigned roles. Target implementation 6/30/2024	High	Started	<50%	"The steps for completing any trade authorization are fully documented and the Treasury Office follows these steps, but they haven't been fully adopted into the Fiscal Management Policy yet. This will happen with the next FMP update." Next steps: "The FMP is updated by Ordinance change. We plan to take the Ordinance updates to Tribal Council in December, which will be approved in January." Target implementation date: 1/10/25

EASTERN BAND OF CHEROKEE INDIANS
OFFICE OF INTERNAL AUDIT AND ETHICS
AUDIT REPORT SUMMARY

Observation	Recommendation	Management Response	Risk	Implementation Status	Percent (%) Complete	Explanation
Investment Reconciliations - reconciliations are not performed monthly and the reconciliation process is not documented in the EBCI Fiscal Management policy.	Implement a monthly reconciliation process over investment information provided by the custody bank. Reconciliations should be documented for each fund and prepared and reviewed by separate individuals to ensure proper segregation of duties are in place. Variances or errors discovered should be resolved immediately to ensure accurate reporting of investment information. Additional reconciliation procedures should be put in place over more complex funds, such as the Minor's Trust Fund, to ensure sub-balances are accurate and variances can be resolved. Finally, the EBCI Fiscal Management Policy should be updated to reflect this process including the frequency of the reconciliations, timelines for preparation and approval, and required supporting documentation to be maintained.	Agree. Currently, there is no written policy for the investment reconciliations. For FY23, the Treasury Specialist assumed the reconciliation responsibilities of the EBCI investment accounts. She will now begin performing monthly or quarterly reconciliations of each investment account - including Pension, Tribal investments, Sovereign Wealth, Education Endowment, and Minors Trust Fund. The Treasury Specialist will reconcile each account and the Accounting Director will post any journal entries to book investment earnings. The Treasury Specialist will prepare the journal entries. The Accounting Director and Treasury Specialist will write the policies and procedures for the reconciliation process. For Minors Trust Fund balances, the EBCI Treasury Department utilizes the USI Consulting Group for recordkeeping. There is an online portal available to each minors fund participant to view balances. USI uses their software to track balances, make withdrawals, and add contributions. Each account is unitized.	Medium	Partially Implemented	>50%	"First, the accounts are reviewed, and investment data is recorded monthly for each account. Second, the Treasury Specialist now reconciles each account between Munis and the account statements more frequently than ever before. The Treasury Specialist has a step-by-step process for each account reconciliation. The accounts are reviewed on a monthly basis." Next steps: "The step-by-step process will be implemented into the Fiscal Management Policy by the end of January 2025." Target implementation date: 12/31/24
Cherokee Code Compliance - discrepancies regarding soft floor requirements between the investment policies, Cherokee Code, and EBCI Financial Policy 1700 - Investments Policy.	Evaluate the Cherokee Code soft floor requirements to determine if they align with the risk tolerance of the Tribe. Since Cherokee Code involves a more robust update and review process, we recommend EBCI consider more general parameters such as a percentage versus specific dollar amounts to allow for more flexibility within the Code as markets and fund balances evolve over time. Absolute figures should be reflected in the investment policies and reviewed/updated in accordance with the required frequencies according to each IPS to ensure alignment with the risk tolerance and long-term strategies of the Tribe.	Agree. We will update the Fiscal Management policy to ensure it matches any changes made to the Cherokee Code. This update will occur annually. The Code was updated in 2023 and the FMP has not been changed to reflect the CC changes. Target implementation 7/26/2024	Medium	Partially Implemented	>50%	"The EBCI Investment Committee has reviewed the Cherokee Code and the IPS of each account. The IPS's are updated as necessary. Furthermore, the committee will review, at a minimum, on an annual basis but if changes are made to the Cherokee Code, then those changes will be discussed ASAP and adjustments to the IPS will be written to match the Cherokee Code." Next steps: "The FMP will be updated to include the policy for updating the IPS's of each account and ensure the IPS's floor match the Cherokee Code." Target implementation date: 1/10/25
Investment Committee Communications Plan -there was no communications plan in place to ensure consistent and timely communication from the Investment Committee to the Executive Office, Tribal Council, Office of Budget & Finance and Tribal members	Develop and implement a communications plan to ensure timely and relevant regarding investment performance and other key items is shared with the necessary parties. The communications plan should consider who is receiving the information, what type of information should be communicated based on the recipient, as well as how that information will be shared (i.e., via website, newsletter, email, etc.). Once the plan is developed, it should be periodically reviewed to ensure communications continue to remain relevant and impactful.	Disagree. A monthly report is distributed to Tribal Council and the Executive Office from the Office of Budget and Finance. This report shows the monthly performance of each investment account, as well as FYTD information. Additionally, the Investment Committee seeks to deliver a quarterly update between Tribal Council and the investment consultants. These occur when the Tribal Council schedules them. Additionally, the Investment Committee will attend any meeting they are invited to for updates. The Cherokee Community Club Council recently invited them to one of their meetings and they gladly accepted the invitation.	Medium	Implemented	100%	"Investment Committee meets with Tribal Council on a quarterly basis to review investment reports, including a presentation by the consultant companies. Additionally, a report is provided monthly from the Treasury Specialist to the Finance Director, who gives a full Office of Budget and Finance summary to Tribal Council. The Treasury Specialist's report includes account balances, net deposits/withdrawals, and investment earnings/losses."
IPS Updates - 5 of 7 investment policies either had not been updated according to timelines mentioned in the policies or the most recent review of the investment policies was not documented	Ensure all policies are being reviewed and/or updated according to the IPS review schedule required in each policy. Each review should be documented regardless of whether or not any changes were made. Since there are varying review frequencies required, EBCI Department of Treasury should consider implementing an IPS review calendar to ensure review frequencies are captured on the calendar and can be properly infused into Investment Committee meeting agendas when it is time to review an IPS.	Agree. We will write in the SOP that the IPS will be reviewed annually and will update as necessary. Target implementation 7/26/2024	Low	Implemented	100%	"Each IPS has been reviewed and updates are made as necessary. The SOP were adopted to include that IPS reviews happen annually."