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February 18, 2025

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

We conducted a compliance audit of Fixed and Sensitive Assets in accordance with the FY25 annual audit plan.

This review was designed to assess the effectiveness of controls and compliance, and if improvement is needed.

REDW identified 3 observations and offered 2 process improvements. The details can be found in the attached report. Management's action plan is included as an attachment.

The assistance of the Treasury 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
Brandi Claxton, Interim Secretary of Treasury
Leigh-Ann Jackson, Financial Analysis Manager

Eastern Band of Cherokee Indians

Fixed Assets

Internal Audit

February 3, 2025



**Eastern Band of Cherokee Indians
Fixed Assets
Internal Audit**

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Eastern Band of Cherokee Indians Fixed Assets Internal Audit

Report

Introduction

We performed the internal audit services described below solely to assist the Eastern Band of Cherokee Indians (EBCI) in assessing the processes and internal controls over key Fixed Asset functions, with a specific focus on capital requests, annual capital asset inventory, transfers, disposals, and non-capitalized and sensitive assets.

Our services were conducted in accordance with the Consulting Standards issued by the American Institute of Certified Public Accountants and the terms of our Professional Services Contract agreement for internal audit services.

Purpose and Objectives

The EBCI Office of Budget & Finance has primary responsibility for ensuring EBCI assets are properly managed and controlled, as well as efficiently used and protected from loss and damage via the Fixed Assets team. As of October 2024, EBCI had approximately 3,000 tagged capital assets, including facilities, with an approximate value of \$402 million as of October 2024.

Our internal audit focused on assessing the processes and internal controls over fixed assets, particularly regarding capital requests, annual capital asset inventory, transfers, disposals, and non-capitalized/sensitive assets. Additionally, we evaluated the Tribe's fiscal management policies and procedures over these areas.

Observations and Recommendations

As a result of our test work, we identified the following observations:

1. *Non-Capitalized and Sensitive Assets*

The EBCI Fiscal Management Policy Manual defines non-capitalized assets as having a value between \$1,000 and \$5,000, with sensitive assets having a heightened risk of theft. Each Program is required to maintain an internal inventory of these types of assets to ensure they are adequately safeguarded. Our testing of 4 Programs determined 2 were not aware of the policy requirement to maintain an inventory over these types of assets and therefore had not maintained the listings in accordance with policy. Further analysis determined the Office of Budget & Finance had not provided any oversight over Programs in this regard to ensure non-capitalized and sensitive asset listings were maintained and that assets had been properly safeguarded.

In addition, when comparing the current process to Government Finance Officers Association (GFOA) best practices, we identified the following deviations from best practice:

- GFOA recommends one or more specific individuals be assigned responsibility over non-capitalized/sensitive assets. Our testing determined EBCI does not have designated liaisons to oversee non-capitalized/sensitive assets to ensure responsibility is clearly defined and in times of turnover, new liaisons can be identified and trained.
- GFOA recommends individuals that are assigned responsibility for tracking non-capitalized/sensitive assets should prepare a report (to be maintained within the department) that provides a complete list of these types of assets, along with an explanation of changes from the previous year. Our testing determined these were not consistently maintained by Programs to ensure they were up-to-date and accurately reflected non-capitalized/sensitive assets in use.
- GFOA recommends departments self-certify each year to the central accounting function that updated lists of non-capitalized/sensitive assets are on file and available for inspection. Our testing determined the Office of Budget & Finance and Fixed Assets, as well as EBCI policy, did not require non-capitalized asset inventories to be certified annually.
- GFOA recommends the central accounting function to periodically verify the data on the non-capitalized/sensitive assets listing on file in each department no less than once every 5 years. Our testing determined this monitoring was not occurring.

Potential Risk – High: Without proper tracking and inventory procedures over non-capitalized and sensitive assets, it becomes easier for assets to be stolen or lost without immediate detection. Given that half the Programs tested were unaware of requirements, there is an absence of communication and training, and non-capitalized/sensitive assets are high risk for theft/misuse, we have assessed this risk at high.

Recommendation: The Office of Budget & Finance should assign and document responsibility to one or more specific individuals in each Program over non-capitalized and sensitive assets and should periodically review the list to ensure any necessary changes to assignments are captured. Policy requirements should be disseminated at least annually to those assigned responsibility over non-capitalized/sensitive assets to ensure they are aware of the requirements.

Per best practices, Programs should also self-certify their inventory listings at least annually. Certifications and asset listings should be provided to Fixed Assets and/or the Office of Budget & Finance to ensure compliance with EBCI policy. A small sample of Programs should be selected for spot audits on a rotating basis over a 5-year period to ensure listings are maintained, are available for inspection, and are reliable and complete. Lastly, to the extent possible, appropriate segregation of duties should be implemented between those who record/modify the listing, those who reconcile, and those who have the authority to authorize and initiate purchases, per best practices.

2. *Capital Asset Inventory*

The EBCI Fiscal Management Policy Manual required capital asset inventory procedures to be completed at the department level annually. The Office of Budget & Finance then conducts its own physical inventory annually to ensure continued asset safeguarding and accuracy of listings. While EBCI policy establishes that capital asset inventory must occur once annually, it does not establish when annual inventory procedures are to occur at the department level or when the Office of Budget & Finance performs their procedures. The policy also does not detail the full asset reconciliation process and sign off procedures of the inventory results. In addition, our testing of 11 programmatic capital asset inventories determined:

- Inventory forms were not sent to Programs until after the fiscal year end with a due date of November 8th; therefore, delaying a timely inventory reconciliation for the year;
- 8 programs did not turn the inventory form by the November 8th due date. Variances ranged from 1 to 90 days past the due date;
 - In addition, analysis over the fiscal year 2023 Annual Inventory Log maintained by the Fixed Assets team indicated that an additional 6 programs of 96 (6%) did not turn in their annual inventory form as required per policy.
- 2 forms were not signed by the Program Manager or Program Director; and
- 1 program only submitted a partial reconciliation. The portion for the warehouse was turned in, but the portion for the office was not. While additional follow up was performed by Fixed Assets, the full form was never submitted.

In addition, our testing determined that while assets have been reconciled, annual physical inventory procedures, per policy, have not been conducted by the Office of Budget & Finance. Further, the Fixed Assets team expressed there were no variances identified during fiscal year 2023 procedures; however, 3 of 11 programs tested indicated variances existed between what was in Munis versus their internal records. Upon inquiry, we did not receive an explanation of the variance and did not view evidence that the variance was investigated by Office of Internal Audit and Ethics.

Potential Risk – *Moderate*: Inaccurate or inconsistently performed capital asset inventories can lead to undetected theft, loss, or mismanagement of assets. Given that the majority of the samples had deviations from processes coupled with an absence of adequately documented inventory procedures, we have assessed this risk at moderate.

Recommendation: EBCI should evaluate the capital asset inventory policy and procedure to identify areas to enhance clarity and effectiveness. Some recommended areas include within the policy are:

- Roles and Responsibilities should be established and documented for asset management and capital asset inventory procedures across different roles within the Tribe, such as for the Office of Budget & Finance, the Asset Manager, Program Managers, maintenance personnel, the Fleet Committee, and IT department.
- Processes for asset and inventory management should be established and documented for tracking and recording assets timely, including how and when inventories are conducted; documentation and record keeping, asset reconciliations, and review and sign-off activities to ensure listings are complete and accurate.

- Inventory timelines should be documented, including deadlines for program annual inventory updates, and when inventory items are reconciled and updated by the Office of Budget & Finance to ensure the processes align with reporting and audit schedules.
- Processes in the instances that programs do not submit their inventory forms timely or completely, including steps and timelines to correct the issues and corrective actions for non-compliance should be established and documented.
- It may be beneficial to incorporate a section on training programs for staff involved in asset management to ensure they understand roles, responsibilities, and proper procedures.

Lastly, inventory listings should be sent to the programs prior to or at the close of the fiscal year to initiate the annual inventory and physical count process earlier. Initiating this process sooner can help ensure that subsequent activities, such as the annual inventory reconciliation, can be performed more timely.

3. Fixed Asset Listings

The EBCI Fiscal Management Policy Manual provides several policies and procedures over how fixed assets are acquired, transferred and disposed of to ensure proper approvals and supporting documentation is obtained. Our testing determined that the manual is silent on when fixed assets should be added/removed from the fixed asset listing to ensure asset listings and records are accurate and updated in a timely manner, as well as who is responsible for updating the listings. In addition, our testing determined assets are not being recorded or updated in Munis in a timely manner. Further testing determined:

- For 18 capital acquisitions tested, 2 assets were missing from the October 2024 fixed asset listing despite the purchase being approved by Tribal Council between March and September 2024. These assets were also not located on asset tracker logs utilized by Fixed Assets.
- For 9 transferred assets tested, 3 assets were not properly updated in the fixed asset listing to reflect the new program ownership.
- For all 9 transfers tested, the transfer forms were not signed by the Office of Budget and Finance, indicating when the record had been updated; therefore, we could not determine when the record was updated to ensure timeliness (however, it did appear to occur within the same fiscal year as the transfer).

Lastly, the Fixed Assets team indicated that disposal records are not usually updated or removed until after the end of the fiscal year when the annual inventory is reconciled.

Potential Risk – Moderate: If fixed asset listings are not updated timely, EBCI may struggle to monitor and manage assets effectively and can also result in inaccuracies in financial reports. Since our testing resulted in missing fixed assets from the listing, we have assessed the risk at moderate.

Recommendation: EBCI should develop standardized procedures for timely recording of asset acquisitions, disposals, and transfers to ensure fixed asset listings are updated timely throughout the fiscal year. Such procedures should be integrated into the EBCI Fiscal Management Policy Manual. Specific personnel to be responsible for entering asset data at the time of acquisition, disposal, or transfer should be identified, and roles and responsibilities should be documented in policy to ensure accountability within the asset management processes. The policy should be updated to include relevant timelines for the updating of records related to asset disposals, including general timelines for delivery of the asset to be disposed of, assessing for the appropriate disposal method, as well as steps and timelines for disposal based on the disposal method selected. It may be beneficial to implement a periodic review/reconciliation on a quarterly basis, as opposed to annually, to ensure asset activities throughout the fiscal year have been identified, are supported with the necessary documentation, and have been updated/captured on asset tracker logs, as well as in Munis.

Process Improvement Opportunities

1. Capital Request Quotes & Bids

In 2024, there was a shift in policy that no longer required multiple quotes or bids to be obtained to support a purchase. Without gathering this information, the Tribe might not be obtaining the most advantageous pricing. We recommend EBCI consider when it may be appropriate to obtain multiple quotes or bids to ensure pricing due diligence is performed and the Tribe is receiving a reasonable price for the item.

2. Technology Equipment

The EBCI Fiscal Management Policy Manual does not provide a clear definition on what is considered technology and other IT equipment. It also does not specify if any additional approvals or criteria are required for the disposals of IT equipment in the Computer Policy. The fiscal management policy should be updated to include definitions of what is considered technology or IT equipment, approvals of purchases, and procedures for disposals. In addition, the Computer Policy does not establish procedures for purchasing or disposal approvals. The Computer Policy should also be updated to include this information and should be appropriately referenced in the fiscal management policy.

Scope and Procedures Performed

In order to gain an understanding of the process, we interviewed the following personnel:

- Leigh-Ann Ledford, Financial Analysis Manager
- Jeremy Wolfe, Fixed Asset Specialist

In order to gain an understanding of the processes and controls in place we read relevant portions of:

- EBCI Fiscal Management Policy Manual (revised September 21, 2023)
- EBCI Fiscal Management Policy Manual (revised September 5, 2024)
- Cherokee Code Section 117-26 – Tribal Property and Equipment; Inventory
- Government Finance Officers Association Best Practices with Non-Capital Assets

We performed the following test work:

Capital Requests – We obtained a listing of all capital asset requests from January 1, 2024, through September 30, 2024. From a listing of 96 capital requests, we selected 15 (with a focus on ensuring various types of items are selected i.e. technology, vehicles, equipment, etc.) and test to determine if:

- Acquisition request was initiated by a Program Manager;
- Request was presented by resolution from the Office of Budget & Finance to the Tribal Council or was included on the FY24/FY25 Capital Plan;
- Request was approved by Tribal Council prior to the asset being purchased;
- The department was provided with a Notice of Award authorizing them to complete the purchase;
- Purchase price appeared reasonable/most advantageous for the Tribe;
- The asset acquisition was included on the proper listing/categorized correctly;
- For Information Technology related purchases, the was authorized by the Office of Information Technology; and
- For Vehicles, the purchase was authorized by the Fleet Committee.

Capital Asset Inventory – We obtained the fiscal year 2023 inventory reconciliation performed by the Office of Budget & Finance and Fixed Assets group. We tested to determine if the reconciliation was complete and variances, if identified, were reported to the Office of Internal Audit and Ethics. In addition, we obtained the fiscal year 2023 Annual Inventory Log that was utilized to track submissions of department inventory reconciliations. We selected 10 departments from the log, and tested to determine if:

- The Office of Budget & Finance ensured the department turned in the reconciliation;
- The form was signed by the Program Manager and Program Director/Secretary;
- The assets reported on the department listing were properly updated on the overall fixed asset listing; and
- The form was returned timely (within 30 days) to Office of Budget & Finance.

Non-Capitalized and Sensitive Assets – We obtained a listing of all EBCI programs/departments. Of 172 programs/departments listed, we selected 4 and requested their non-capitalized and sensitive asset listings to ensure these types of assets were properly tracked and safeguarded per EBCI policy. In addition, we evaluated the EBCI policies and procedures over non-capitalized and sensitive assets against GFOA best practices to determine if additional internal controls/best practices should be implemented.

Transferred Assets – We obtained a listing of all transferred assets in fiscal years 2023 and 2024. From a total population of 66 in 2023 and 7 in 2024, we selected 3 from each fiscal year (for a total population of 6), and tested to determine if:

- A transfer request form was completed;
- The receiving department/program acknowledged receipt of the item;
- The record was correctly updated accordingly in Munis (re-assigned to receiving program/department); and
- If the asset was transferred in fiscal year 2023, the asset was properly reported in the fiscal year 2023 annual capital inventory form.

Disposed Assets – We obtained a listing of all assets disposed of in fiscal year 2024. From a listing of 125 assets, we selected 10 (ensuring a mix of grant-funded and program funded assets, as well as various disposal types) and tested to determine if:

- The disposal was supported with a completed disposal request form;
- If the item was not transferred to another program/department, an allowable disposal method was utilized: donation, traded-in, or sold at auction;
- If the asset was disposed of by sale or scrap, the funds were deposited timely and credited to the correct funding source;
- The asset was properly reported on the fiscal year 2023 annual capital inventory form;
- If the purchase of the asset was grant-funded, the transfer or disposal was approved by the Grants Compliance function;
- If the purchase of the asset was grant-funded, the disposal followed disposition instructions as provided by the awarding agency; need to obtain from Compliance Office; and
- For any technology or fleet related, we tested to ensure the disposal or transfer was properly approved by Information Technology or the Fleet Committee.

* * * * *

We discussed and resolved minor observations with management and received cooperation and assistance from the EBCI Office of Budget & Finance during the course of our interviews and testing. We sincerely appreciate the courtesy extended to our personnel.

REDW LLC

Albuquerque, New Mexico
February 3, 2025

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MEMORANDUM

TO: Executive
Tribal Council

FROM: Sharon Blankenship, Chief Audit and Ethics Executive 

CC: Lori Lambert, Audit and Ethics Committee Chair
Brandi Claxton, Interim Secretary of Treasury
Leigh-Ann Jackson, Financial Analysis Manager

DATE: February 18, 2025

RE: Responses to Report 25-003 – Fixed and Sensitive Assets Audit Report

The 3 observations and recommendations identified in the Fixed and Sensitive Assets audit report 25-003 were sent to the program for a response. The responses provided are stated below. The original response forms are on file with this office.

1. Non-Capitalized and Sensitive Assets

Response: Agree, Target implementation 6/1/25

Respondent narrative: “More information regarding non-capitalized/sensitive assets will be shared with programs as well as requirements to create a non-capital/sensitive asset listing. This list will also be required to be submitted to the Office of Budget & Finance at least annually. A list of appropriate personnel will be created to ensure lists are maintained at the program level.”

2. Capital Asset Inventory

Response: Agree, Target implementation 6/1/25

Respondent narrative: “Capital asset inventory policy and procedure will be evaluated and updated as needed to provide clarify and improve effectiveness.”

3. Fixed Asset Listing

Response: Agree, Target implementation 6/1/25

Respondent narrative: "Current procedures will be evaluated and updated as needed to provide clear deadlines for asset acquisitions, disposals, and transfers to ensure timely recording in Munis."