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May 13, 2025

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

We conducted an internal control review of the Water and Sewer program in accordance with the FY25 annual audit plan.

An internal control review is designed to assess the program's operations and effectiveness of internal controls to determine if improvement is needed.

Water and Sewer's internal controls need improvement. We identified 8 observations and one process improvement opportunity. The details can be found in the attached report. Management's response is included as an attachment.

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

Sincerely,

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

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

cc: Lori Lambert, Audit and Ethics Committee Chair
Anthony Sequoyah, Secretary of Operations
Chris Ledford, Interim Water and Sewer Manager

Eastern Band of Cherokee Indians

Water and Sewer

Internal Audit

April 22, 2025



Eastern Band of Cherokee Indians Water and Sewer Internal Audit

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Eastern Band of Cherokee Indians Water and Sewer 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 Water and Sewer functions.

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 Water and Sewer Department has primary responsibility for providing water and sewer services to enrolled members within a three-county service area. As of March 2024, EBCI had approximately 2,700 water service account holders. The department is responsible for ensuring timely and accurate billing for water utility services as well as various commercial inspections to ensure health and human safety.

Our internal audit focused on assessing various processes and internal controls at the Water and Sewer Department to ensure compliance with applicable sections of the Cherokee Code and the EBCI's Fiscal Management Policies. Specific areas tested included water usage billing, user account activations, past due accounts, service disconnections, wastewater inspection compliance, repair and maintenance work orders, and repair and maintenance inventory.

Observations and Recommendations

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

1. Commercial Inspections

The Cherokee Code of Ordinances, *Chapter 145 Wastewater Discharge, Article VI Enforcement and Article VII Adjustment of Money Owed*, gives the Tribe the authority to assess fees and penalties to commercial properties whose wastewater disposal practices are noncompliant with the Cherokee Code. Our testing determined commercial property inspections had not been completed since July 2024 to ensure compliance with Code requirements for wastewater disposal. Further analysis of the tracking mechanisms to ensure timely inspections determined they did not appear effective as they were printed out lists of properties with no detail regarding the frequency of the inspections or when the last one had been performed. In addition, while inspectors did indicate that letters were

normally sent to notify the property owner of noncompliance, there were no additional enforcements of allowable fees or penalties to noncompliant properties.

Potential Risk – High: The absence of timely wastewater inspections and enforcement for noncompliance penalties allowable by Cherokee Code increases the risk of continued noncompliance. Since this impacts health and human safety, we have assessed the risk at high.

Recommendation: The Water and Sewer Department should implement a systematic approach for inspections to ensure they are completed timely. This should include a more robust tracking mechanism to ensure due dates for inspections (including any required follow up inspections) can be tracked easier. In the event of noncompliance, the department should establish procedures for how notification and penalties will be handled. The department should continue sending the letters of noncompliance to the property after the inspection but should also review additional enforcement measures, as allowable by the Cherokee Code, such as fees or closures, to ensure commercial properties comply with requirements.

2. Inventory Management Internal Controls

Fiscal Management Policy, *Section 1300 – Capital Asset Policy, Sub-Section 4 – Non-Capitalized and Sensitive Items*, outlines that department inventory management must ensure the accurate tracking, accountability, and documentation of all inventory movement. The Water and Sewer Department maintains inventory both in a warehouse and on the service trucks. When a technician needs inventory, they utilize a sign-out sheet to document what they obtained and document what was used on the work order upon completion of the job. Our testing determined there were no periodic inventory reconciliations performed over inventory maintained by the Water and Sewer Department for either inventory in the warehouse or on the service trucks to ensure inventory was accurate. Additional testing over 15 work orders determined:

- 10 work orders had inventory utilized however, there was no evidence of the inventory being properly signed out of the warehouse therefore we could not determine if the appropriate amount of inventory was utilized or if the assigned technician obtained it;
- 1 work order had a discrepancy between the location/employee who signed out the parts on the sign out sheet versus what was documented on the work order; and
- 1 work order had an employee who signed out parts but was not documented as part of the work team for that work order.

Potential Risk – Moderate: The absence of periodic inventory reconciliations combined with missing documentation increases the risk of inventory loss or theft. While there are limited controls in place to ensure inventory is properly safeguarded, inventory cost likely not significant; therefore, we have assessed the risk at moderate.

Recommendation: The Water and Sewer Department should establish a periodic inventory reconciliation protocol with regular spot audits for warehouse and truck inventories. In addition, technicians should be trained on the importance of ensuring inventory is properly signed out and documented on the work orders to help facilitate complete and accurate reconciliations. In the event discrepancies in inventory are found, EBCI Water and Sewer management should investigate and resolve the discrepancies to ensure inventory is properly accounted for and safeguarded.

3. **Billing Review Processes**

Fiscal Management Policy, Section 700 – A/R Policy, outlines that utility services, including water services, are invoiced by the 10th day of the month. Our testing over the water utility billing process determined there were no additional policies and procedures in place over the water utility billing review process to ensure reviews were completed timely and consistently. In addition, while an informal monthly review appeared to be taking place, documentation was not maintained. Further testing over 20 invoices determined 5 invoices, with a November closing bill date of November 8, 2024, were not captured in the December billing cycle which started on November 10th. This appears to have resulted in possible missed revenue on November 8 and 9, 2024. While additional discussion with the department indicated that although they were aware the dates did not align, they indicated that system knew the billing cycle/meter read dates to pull however, documentation was not in place to support that the dates were billed.

Potential Risk – Moderate: Without effective review processes in place, there is a risk of billing errors leading to a potential loss of revenue. Since the errors resulted in potential missed revenue, we have assessed the risk at moderate.

Recommendation: The Water and Sewer Department should expand policies and procedures to include more specific steps on how the billing review process will be performed. Areas to include should ensure how billing dates will be validated to ensure they are accurately captured from the end of the previous period to the next. The department should evaluate the policies and procedures at least once every other year to ensure process changes and/or inefficiencies in the process can be evaluated and updated accordingly.

4. **Past Due Accounts**

Fiscal Management Policy, Section 700 requires any customer with an outstanding utility balance be assessed a late fee. In addition, if the outstanding balance is not paid by the required deadline, the water services are to be shut off and an additional disconnection fee will be assessed. Services are not turned on until all payments have been received. Our testing over 6 past due accounts determined:

- For 1 past due account, records indicated that the account was “already off” as of January 25, 2025, yet historical water usage data showed that the water service was active despite a total outstanding account balance of \$2,508.68. Per further investigation it appears the account holder had placed an idle vehicle over the meter box, blocking access to turn off the water; and
- For all 6 past due accounts, we were able to determine the late fee had been assessed in the billing system however, the fees were not charged to the customer via the invoice. Further discussion with the department indicated that these fees were not billed to the customer for the months sampled as there was a natural disaster that occurred and then the holidays. While this appears reasonable, the Fiscal Management Policy was silent on who was authorized to remove the billing of late fees.

Potential Risk – Moderate: The absence of compliance with policies surrounding past due accounts increases the risk of revenue loss to EBCI. Since we were unable to determine if late fees were properly applied, we have assessed the risk at moderate.

Recommendation: The Water and Sewer Department should reiterate the importance of timely water service disconnections and instruct technicians to resolve report, and document any on-site issues preventing them from completing their duties to appropriate Tribal management to ensure timely resolution. In addition, the Fiscal Management Policy should be updated to include who is authorized to waive or delay required fees or penalties. When this occurs, documentation should be maintained supporting the approval.

5. Refundable Deposits

The EBCI Water and Sewer Application Form and Fee Schedule outlines that all accounts holders must pay a refundable deposit when submitting a new account application. These deposits can either be returned to the account holder or applied to the final bill at the conclusion of service needs. Through discussions with the Water and Sewer Department, it was determined that the refundable deposits were not consistently refunded or applied in accordance with the policy upon termination of utility services. As a result, the department appeared to be retaining customer deposits that should have been refunded.

Potential Risk – Moderate: The absence of a process to ensure refundable deposits are returned timely increases the risk of disputes and legal liabilities. Since it is unclear how many accounts this may have impacted, we assessed the risk at moderate.

Recommendation: The Water and Sewer Department, in coordination with the Office of Budget and Finance, should standardize procedures to guarantee consistency in refundable deposit fund processing and handling upon termination of utility services. The department should evaluate recent utility service terminations and ensure any refundable deposits are returned to the customer in accordance with policy.

6. Repair and Maintenance Work Orders

When a customer needs repair and maintenance services performed related to water and sewer services, they contact the EBCI Water and Sewer Department. A work order is established by a department secretary and assigned to an available technician to complete the task. Once done, the technician documents what services were performed on the work order as well as when it was completed. Our testing determined there were no policies and procedures over the work order process to ensure services were performed consistently, completion expectations were clear, and appropriate documentation was retained.

Additional testing over 15 work orders determined:

- 4 work orders did not have the completion date noted on the work order therefore, we could not determine if the work order was completed in a reasonable timeframe; and
- 5 work orders appear to have been initiated and completed by the same individual therefore we could not determine if the Service Technician completed the work order or if it was completed by someone else.

In addition, we noted several inconsistencies in the work orders such as duplicate work order numbers, missing work order numbers, missing account holder or service location information, and missing initiator information to document who started the work order.

Potential Risk – Low: If work orders are not completed timely or consistently, increased repairs and maintenance issues may occur. Since the issues appear to be related to documentation and not failure to perform the repairs/maintenance, we have assessed the risk at low.

Recommendation: The Water and Sewer Department should establish policies and procedures over the work order process to ensure processes are performed consistently. Areas to cover include how work orders are submitted and assigned, what documentation is required and by whom on the work order to ensure the work order is properly completed, and the importance of ensuring that the appropriate individual is completing relevant sections of the work order.

7. *Utility Billing Exception Clearing*

The utility billing system generates a monthly Exception Report that flags potential issues such as missed meter reads or high-water usage, etc. These exceptions must be cleared before billing is completed, however, once cleared, exceptions are no longer visible in the system. Although the exceptions appear to be cleared for legitimate reasons, our testing determined there were no policies and procedures governing the exception clearing process. Additionally, only one individual appeared knowledgeable about the process, with no defined backup personnel or cross-training procedures.

Potential Risk – Low: The absence of clear processes and backup personnel increases the risk that exceptions may be incorrectly cleared. Since it did appear exceptions were properly cleared and this issue relates strictly to documented processes/backup personnel, we have assessed the risk at low.

Recommendation: The Water and Sewer Department should implement policies and procedures for documenting how various exceptions will be cleared to ensure consistent processing. Additionally, the Department should identify and train additional staff to provide a reliable backup, thereby reducing dependency on one individual.

8. *New Water Utility Accounts*

When a residential or commercial property wishes to establish water utility services, an application is submitted to the EBCI Water and Sewer Department. Upon approval of the application and payment of applicable deposits/connection fees, services are started, and customers are added to the subsequent billing cycle. Our testing determined there were no policies and procedures in place over new account activations to ensure processes were handled consistently. In addition, we determined there was limited documentation over new account connection fees assessed to the customer to support why fees were being charged. While our testing over 5 new account activations determined the fees charged were in accordance with fee schedules in place, limited documentation was in place to support why different fees were charged to different customers as much of the information was based on employee knowledge and not documented.

Potential Risk – Low: The absence of complete documentation to support account activation fees increases the risk of potential disputes or billing errors. Since fees were ultimately allowable, we have assessed the risk as low.

Recommendation: The EBCI Water and Sewer Department should establish policies and procedures over new utility accounts to ensure consistent processes are followed. The policies and procedures should address the application process, how applicable connection fees and deposits will be obtained, and processes to ensure timely turn on services. Finally, the department should evaluate the document retention processes to ensure all required documents, including fees that were assessed and why, are maintained for new customers.

Process Improvement Opportunity

1. *Invoice Billing Dates*

During our testing over customer invoices, 18 of 20 invoices billed dates did not correspond to the last meter read/end billing cycle date. Further discussion with the Billing Processor indicated that efforts had been made to align the dates however, the department received several concerns from customers. While further testing indicated that it did appear the system rolled the dates properly and it was just a presentation error on the invoice, we recommend the department consider proactive communication with customers that there will be updates to the billing dates to ensure alignment with meter reads/billing cycle end dates on the invoices.

Scope and Procedures Performed

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

- Christopher “Chris” Ledford - Interim Manager, previously Field Technician Supervisor
- Talisa Bradley - Billing Processor
- Johnny Huskey - Inventory Control Specialist
- Sabrina Hornbuckle - Office Administrator

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

- Cherokee Code of Ordinances, Chapter 145 – Wastewater Discharge
- EBCI Fiscal Management Policy Manual (revised September 5, 2024)
- EBCI Water and Sewer Application Form and Fee Schedule

We performed the following test work:

Monthly Billing Cycle – We obtained three months of billing cycle Charge Proof reports (January 2025, December and November 2024) along with the January 2025 Exception Report. We judgmentally selected 9 accounts from January, 5 accounts from December, and 6 accounts from November; trying to select a sample of Residential and Commercial property accounts and accounts with zero, excessive, and normal water usage, and tested to ensure:

- Invoice was billed by the 10th of the following month of service per EBCI Fiscal Management Policy.
- Charge Report meter read dates roll from one period to the next and match the meter read dates reported on the customer invoice.
- Client data (name, address, account number) on Charge Report matches information on invoice.
- Billed usage (water gallon usage and fee amount) on invoice matches information on Charge Report.
- Property classification (commercial vs residential) is correct.
- Each account is charged the correct base service fee (\$15 for Commercial, \$11 for Residential) based on the property classification.

- Special service fees (like sewer fees and leak protection fees) are being applied to the appropriate accounts and invoices are free of extraneous fees.
- To assess that revenue is being calculated accurately, and there is no loss of revenue, REDW selected 10 samples and recalculated invoice totals based on known rates and fees pulled from the Application Form.

Account Activation – We obtained a listing of System Connections Work Orders completed from January 2024 through January 2025. We selected 5 samples of the 140 population and ensured that:

- A completed application is on file.
- The customer was added to the next corresponding billing cycle that agrees to the date of the application.
- The required, refundable Deposit (\$75) was paid before service started.
- The Activation Work Order was completed timely.

Past Due Accounts and Disconnections – We obtained the November 2024 and January 2025 past due reports provided by Finance to the Water Department and selected 3 samples from each report to test to determine:

- The shut off report was provided by the Office of Finance shortly after the 14th day of the month.
- The \$7.15 Late Fee was included in the past due amounts.
- Service was shut off on the day expected.
- The Activation Fee (\$65) was applied.
- Communication was provided to the customer notifying them when shut offs would be conducted on past due accounts.
- All past due amounts and fees were paid prior to restoration of service.
- The account was reactivated timely after all past due amounts and fees were received.

Wastewater Inspection Compliance – Obtained the inspection tracking spreadsheets as of February 2025 and evaluated the frequency of inspections to ensure compliance with required monthly inspections as required by Code. In addition, evaluated enforcement mechanisms allowable by Cherokee Code to strengthen noncompliance protocols.

Repair and Maintenance Services and Inventory Tracking – We obtained the listing of all work orders submitted as of January 27, 2024. From a total population of 714 work orders submitted between January 1, 2024, through January 27, 2025, we selected 15 and tested to determine:

- A completed work order form was on file.
- The work order job was assigned timely.
- Service Technician documented services performed on the Work Order.
- Service Technician signed off on completed Work Order when all services performed were completed.
- The job was completed in a reasonable timeframe.

Additionally, utilizing the sample of 15 work orders above, we tested to determine:

- Service Technician documented inventory and tools required/used for service performed from the Water and Sewer Repair and Maintenance Warehouse.
- Inventory utilized on the work order agreed to inventory signed out via the sign out sheet.
- Employee signing out inventory was documented as one of the technicians assigned to completing the work order.
- Location documented on Inventory sheet matched the location on the work order.

* * * * *

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

REDW LLC
Albuquerque, New Mexico
April 22, 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
Chris Ledford, Interim Water and Sewer Manager
Anthony Sequoyah, Secretary of Operations

DATE: May 13, 2025

RE: Responses to Report 25-004 – Water and Sewer Audit Report

The 8 observations and recommendations identified in the Water and Sewer audit report 25-004 were sent to the program for a response. The responses as provided are stated below. The original response forms are on file with this office.

1. Commercial Inspections

Response: Agree, Target implementation 8/4/25

Respondent narrative: “We would like to have a work session with the Office of Attorney General to assess fees and penalties. Since the audit was initiated, we have been utilizing an app, FOGBMP. We need to make modifications to the Cherokee Code and the Article * section 145-48 through 58 and ordinance 129 exhibit A.”

2. Inventory Management Internal Controls

Response: Agree, Target implementation 8/4/25

Respondent narrative: “Purchase or create inventory software to track and reconcile material used. It also needs to be integrated with our work order management. We are going to reprimand field workers if they do not sign out inventory. The inventory specialist will reconcile with field workers each day and after weekends. He will also perform monthly random inventory counts.”

3. Billing Review Process

Response: Agree. Target implementation 8/1/25

Respondent narrative: “Create a step-by-step SOP on monthly billing process. Changing the Bill dates to align with the monthly reading dates will be implemented. Policies and procedures will be evaluated bi-annually and amended if changes should be needed.”

4. Past Due Accounts

Response: Agree, Target Implementation 5/27/25

Respondent narrative: “The Office of the Water & Sewer will double, and triple check delinquent accounts for any repeated or frequent overdue fees/accounts. The Water & Sewer field personnel will make sure all outstanding accounts are off and locked out. After the shutoff accounts have been turned off and paid, we (Water & Sewer) will perform follow up verification to make sure the accounts do not have any usage (the unpaid delinquent accounts). Changes need to be made in the Fiscal Management Policy that address authorization to waive the late fees.”

5. Refundable Deposits

Response: Agree, Target implementation 8/4/25

Respondent narrative: “The Water & Sewer will apply greater effort towards refunds in a timely manner. A working session between the Finance and Water & Sewer departments demands attention to address such issues.

To create a timely and accurate refunding policy, we will consider the following best practices:

- Have a clear refund policy in place to prevent confusion and misunderstandings.
- Automate the refund process to save time and reduce errors.
- Train administrative representatives to handle refund requests effectively.
- Provide multiple refund options to accommodate different situations.
- Monitor refund processing times to ensure efficiency and transparency.”

6. Repair and Maintenance Work Orders

Response: Agree, Target implementation 8/4/25

Respondent narrative: “To improve work order management, the Water & Sewer department will consider the following strategies and best practices:

- Create and communicate clear work order policies and procedures.
- Provide comprehensive training and support to employees during the transition.
- Regularly review and update work order management processes to address inefficiencies.
- Encourage employee engagement and involvement in improving work order management practices.
- Prioritize work orders based on urgency.

- Keep detailed records.
- Regularly train employees.
- Leverage technology.

We have been reaching out to the IT department for guidance and approval for any available software or programming that could be advantageous to the department. We are searching for proprietary utility asset management software to help us maintain every asset, increase efficiency, reduce costs, and meet regulatory compliance. Until we are able to acquire such asset, we have been utilizing the Microsoft list as a work order tracking and reporting platform.”

7. Utility Billing Exception Clearing

Response: Agree, Target implementation 8/4/25

Respondent narrative: “The Water & Sewer Department will pursue program administrative cross training for the purpose of identifying the major tasks and skills in a specific area of the organization and then training each employee on these skills so that they can step in for support when needed. Together, policies and procedures provide a roadmap for day-to-day operations and following proper policies and procedures in this area means that employees can provide regular support to clients, enhance the quality of proper billing services.”

8. New Water Utility Accounts

Response: Agree, Target implementation 8/4/25

Respondent narrative: “The Water & Sewer will pursue writing a policy for the application process. We do follow a process now that isn't written down and fees depend on whether it's in district or out of district or if it's a new tap or existing. Our application does already outline the fee process. See attached Water & Sewer application.”