



MOSSADAMS

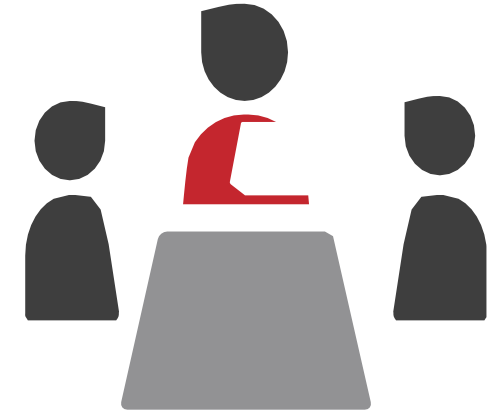
Finance for the Non-Finance Council Member

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Agenda



- Key Financial Terms to Know
- Important Terms to Understand for the Audit Process
- Understanding Financial Risks to Tribal governments
- Important Matters to Know About Fraud
- Review Important Internal Controls and Best Practices





Key Financial Terms to Know



Key Financial Terms to Understand

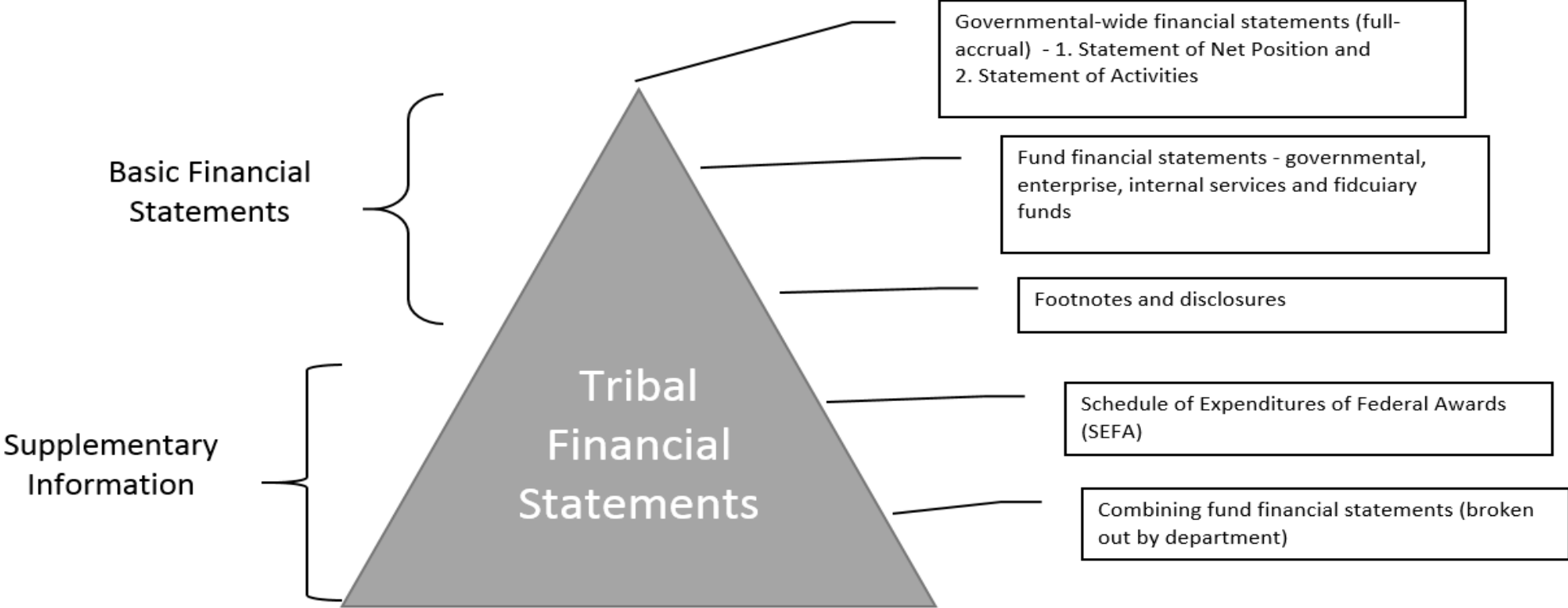
- **Important components of Tribal financial statements**
 - Statement of Net Position
 - Statement of Activities
 - Fund Financial Statements
 - Schedule of Expenditures of Federal Awards
- **What is GAAP**
- **Audit terms –**
 - Materiality
 - Audit Findings
 - Opinions
 - Low-risk Auditee

Key Financial Terms to Understand

Understand key components of Tribal financial statements:

- What are assets, liabilities, net position (equity), revenues and expenditures?
- Look for deficits in **net position** (equity)
- Significant **long-term debt** will result in large amounts of interest expenses
- Review the allocation of expenses by functions
- **General government** expenses usually equals administration

Key Components of Tribal Financial Statements



A management's discussion and analysis (MD&A) and statistical information may be included to provide more financial information to the readers.

Statement of Net Position - Example

Statement of Net Position
June 30, 2017

	Governmental Activities	Business-type Activities	Total
ASSETS:			
Current Assets:			
Cash and cash equivalents	20,783,493	\$ 6,431,682	\$ 27,215,175
Cash on deposit with funding agency	819,126	-	819,126
Restricted cash	-	579,895	579,895
Investments	4,805,255	-	4,805,255
Accounts receivable	2,656,839	635,028	3,291,867
Internal balances	569,864	(569,864)	-
Due from federal and state governments	507,011	-	507,011
Inventory	-	34,020	34,020
Prepays	189,919	-	189,919
Total Current Assets	30,331,507	7,110,761	37,442,268
Noncurrent Assets:			
Net Pension Asset	3,682,287	-	3,682,287
Assessment fees	-	374,317	374,317
Capital assets not being depreciated	21,864,072	831,224	22,695,296
Capital assets, net of accumulated depreciation	26,475,591	19,859,429	46,335,020
Total Noncurrent Assets	52,021,950	21,064,970	73,086,920
TOTAL ASSETS	82,353,457	28,175,731	110,529,188
DEFERRED OUTFLOWS OF RESOURCES:			
Deferred charges on refunding	82,054	-	82,054
Deferred outflows related to pension plan obligations	15,767,321	-	15,767,321
TOTAL DEFERRED OUTFLOWS OF RESOURCES	15,849,375	-	15,849,375
LIABILITIES:			
Current Liabilities:			
Accounts payable and accrued expenses	3,190,994	221,115	3,412,109
Unearned revenue, assessments, and fees	-	80,872	80,872
Current portion of compensated absences	725,000	35,000	760,000
Current portion of bonds and other debt obligations	1,585,000	460,450	2,045,450
Total Current Liabilities	5,500,994	797,437	6,298,431
Noncurrent Liabilities:			
Compensated absences	4,294,428	84,858	4,379,286
Unearned revenue, assessments, and fees	-	332,591	332,591
Net OPEB Liability	39,197,000	-	39,197,000
Net Pension Liability	69,473,732	-	69,473,732
General obligation bonds and other debt, net	22,075,012	6,571,301	28,646,313
Total Noncurrent Liabilities	135,040,172	6,988,750	142,028,922
TOTAL LIABILITIES	140,541,166	7,786,187	148,327,353
DEFERRED INFLOWS OF RESOURCES:			
Deferred inflows related to pension plan obligations	10,517,716	-	10,517,716
Deferred inflows related to OPEB plan obligations	2,776,000	-	2,776,000
TOTAL DEFERRED INFLOWS OF RESOURCES	13,293,716	-	13,293,716
NET POSITION			
Net investment in Capital Assets	25,496,777	14,238,797	39,735,574
Unrestricted	(81,130,827)	6,150,747	(74,980,080)
TOTAL NET POSITION	\$ (55,632,050)	\$ 20,389,544	\$ (35,242,506)

Broken out
between
governmental
and business-
type activities

Long-term
Liabilities –
Current
and Non-
current

Unrestricted
Net Position
– Look for
deficits

Statement of Activities - Example

Statement of Activities
For the Year Ended June 30, 2017

Functions/Programs:	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services, Fees & Licenses	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:							
General government	\$ 8,144,022	\$ 1,689,365	\$ 5,421	\$ -	\$ (6,449,236)		\$ (6,449,236)
Public safety	16,214,772	1,834,694	68,860	26,079	(14,285,139)		(14,285,139)
Public works	6,530,032	-	-	-	(6,530,032)		(6,530,032)
Public health and assistance	5,938	62,000	3,476	-	59,538		59,538
Public libraries	1,321,571	-	-	-	(1,321,571)		(1,321,571)
Education	39,839,753	332,466	8,973,594	-	(30,533,693)		(30,533,693)
Recreation and senior activities	1,822,960	17,981	18,071	-	(1,786,908)		(1,786,908)
Interest on long-term debt	824,421	-	517,711	-	(306,710)		(306,710)
Total governmental activities	74,703,469	3,936,506	9,587,133	26,079	(61,153,751)		(61,153,751)
Business-type activities:							
Sewer Authority	3,261,790	3,138,371	-	-	-	\$ (123,419)	(123,419)
Water Supply Board	1,430,372	1,506,221	-	-	-	75,849	75,849
Smithfield Ice Rink	716,387	709,539	-	-	-	(6,848)	(6,848)
School Lunch Program	509,384	350,930	176,704	-	-	18,250	18,250
Total business-type activities	5,917,933	5,705,061	176,704	-	-	(36,168)	(36,168)
Total	\$ 80,621,402	\$ 9,641,567	\$ 9,763,837	\$ 26,079	(61,153,751)	(36,168)	(61,189,919)
General revenues:							
Property taxes					56,793,959	-	56,793,959
Motor vehicle phase-out taxes					267,710	-	267,710
Telephone taxes and general state aid					279,390	-	279,390
Hotel, meals, and beverage tax					911,374	-	911,374
Unrestricted investment earnings					346,587	35,231	381,818
Transfers					150,000	(150,000)	-
Total general revenues and transfers					58,749,020	(114,769)	58,634,251
Change in Net Position					(2,404,731)	(150,937)	(2,555,668)
Net Position - beginning of year (As Restated)					(53,227,319)	20,540,481	(32,686,838)
Net Position - ending of year					\$ (55,632,050)	\$ 20,389,544	\$ (35,242,506)

1. Expenses by function netted with revenues

2. Interest expense

3. Transfers between activities

4. Changes in net position (net income)

Governmental Fund Balance Sheet

Broken out by
the Tribe's
major funds

	General Fund	School Unrestricted Fund	Police Improvement Bond	Other Governmental Funds	Total Governmental Funds
ASSETS:					
Cash and cash equivalents	\$ 16,590,342	\$ 6,489	\$ -	\$ 4,186,682	\$ 20,783,493
Cash on deposit with funding agency	-	-	-	819,126	819,126
Investments	4,805,255	-	-	-	4,805,255
Taxes receivable, net	2,272,766	-	-	-	2,272,766
Other receivables, net	248,799	4,096	-	131,178	384,073
Due from federal and state governments	-	100,927	-	406,084	507,011
Prepaid expenditures	-	146,104	-	43,815	189,919
Due from other funds	928,088	2,610,447	953,157	3,934,826	8,426,518
TOTAL ASSETS	\$ 24,845,250	\$ 2,868,043	\$ 953,157	\$ 9,521,711	\$ 38,188,161
LIABILITIES:					
Accounts payable	\$ 578,867	\$ 125,300	\$ 94,926	\$ 38,145	\$ 837,238
Accrued liabilities	1,027,295	823,160	-	28,534	1,878,989
Retainage payable	-	-	264,267	-	264,267
Due to other funds	6,144,373	-	-	1,712,281	7,856,654
TOTAL LIABILITIES	7,750,535	948,460	359,193	1,778,960	10,837,148
DEFERRED INFLOW OF RESOURCES:					
Unavailable tax and fee revenue	931,717	-	-	110,740	1,042,457
FUND BALANCE:					
Non-Spendable	1,340,454	146,104	-	43,815	1,530,373
Restricted	37,625	-	-	1,207,670	1,245,295
Committed	7,835,554	1,773,479	-	7,526,368	17,135,401
Assigned	2,422,816	-	-	-	2,422,816
Unassigned	4,526,549	-	593,964	(1,145,842)	3,974,671
TOTAL FUND BALANCE	16,162,998	1,919,583	593,964	7,632,011	26,308,556
TOTAL LIABILITIES, DEFERRED INFLOW OF RESOURCES, AND FUND BALANCE	\$ 24,845,250	\$ 2,868,043	\$ 953,157	\$ 9,521,711	\$ 38,188,161

Governmental
funds show
“short-term”
assets and
liabilities

Statement of Revs, Exps, and Changes in Fund Balances – Governmental Funds

Revenues – money coming in

Transfers – money (paid) received other funds

	General Fund	School Unrestricted Fund	Police Improvement Bond	Other Governmental Funds	Total Governmental Funds
REVENUES:					
General property taxes	\$ 56,202,307	\$ -	\$ -	\$ -	\$ 56,202,307
Intergovernmental	2,686,282	5,887,100	-	1,155,394	9,728,776
Licenses, fees, fines, charges, and assessments	1,046,871	49,963	-	2,189,235	3,286,069
Investment income (loss)	336,043	-	-	10,544	346,587
Contributions	-	28,713	26,079	77,036	131,828
State on behalf pension & transportation contributions	-	1,933,327	-	-	1,933,327
Other miscellaneous	286,856	282,503	-	85,710	655,069
TOTAL REVENUES	60,558,359	8,181,606	26,079	3,517,919	72,283,963
EXPENDITURES:					
Current:					
General government	2,576,436	-	-	-	2,576,436
Public safety	10,618,659	-	-	555,731	11,174,390
Public works	3,717,755	-	-	-	3,717,755
Public health and assistance	5,938	-	-	-	5,938
Libraries	1,321,571	-	-	-	1,321,571
Education	234,830	37,648,549	-	1,058,472	38,941,851
Recreation, Senior and Neighborhood Center	888,359	-	-	329,380	1,217,739
Benefits and other miscellaneous	8,896,850	-	-	33,410	8,930,260
Debt Service:					
Principal	1,338,400	-	-	-	1,338,400
Interest and other costs	747,776	-	59,415	-	807,191
Capital:					
Capital expenditures	696,109	498,997	3,009,761	1,363,552	5,568,419
TOTAL EXPENDITURES	31,042,683	38,147,546	3,069,176	3,340,545	75,599,950
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES BEFORE OTHER FINANCING SOURCES (USES)	29,515,676	(29,965,940)	(3,043,097)	177,374	(3,315,987)
OTHER FINANCING SOURCES (USES)					
Issuance of bonds	-	-	6,075,000	-	6,075,000
Premium from issuance of bonds	-	-	429,320	-	429,320
Transfers in	1,404,594	30,702,808	-	177,329	32,284,731
Transfers out	(30,880,137)	-	-	(1,254,594)	(32,134,731)
TOTAL OTHER FINANCING SOURCES (USES)	(29,475,543)	30,702,808	6,504,320	(1,077,265)	6,654,320
NET CHANGE IN FUND BALANCES	40,133	736,868	3,461,223	(899,891)	3,338,333
FUND BALANCE BEGINNING OF YEAR	16,122,865	1,182,715	(2,867,259)	8,531,902	22,970,223
FUND BALANCE AT END OF YEAR	\$ 16,162,998	\$ 1,919,583	\$ 593,964	\$ 7,632,011	\$ 26,308,556

Expenditures – money paid

Change in fund balance – “net income”

Schedule of Expenditures of Federal Awards (SEFA)

SEFA shows expenditures of all programs of federal money

Total could impact whether you have an audit or not >\$750,000

SEFA heavily scrutinized by the federal government

Federal Grantor/Pass Through Grantor/Program Title	Federal CFDA Number	Pass Through Grantor/ Grant Award Number	Federal Expenditures
U.S. Department of Interior			
Direct Programs			
Consolidated Tribal Government Program	15.020		\$ 535,700
Social Services Program	15.025		52,979
Indian Child Welfare Act - Title II Grants	15.144		72,225
Roads Maintenance	15.033		26,709
Johnson O'Malley Program	15.130		8,676
Total U.S. Department of Interior			696,289
U.S. Department of Health and Human Services			
Direct Programs			
Special Programs for the Aging - Title VI, Part A, Indian Programs - Grants to Indian Tribes (Title VI Elderly Nutrition)	93.047		\$ 69,550
Substance Abuse Treatment Grants	93.441		108,645
Community Health Representative	93.441		41,729
Consolidated Health	93.441		2,124,136
Special Diabetes Programs for Indians	93.237		50,433
Headstart	93.600		83,693
Child Care and Development	93.575		1,270
Child Welfare Services	93.645		4,211
IHS- Sanitation Facilities Construction Program	93.445		-
Total Direct Programs			2,483,669
Pass-through Texas Department of Agriculture			
Summer Food Service Program for Children	10.559	75V8003	\$ 7,907
Child & Adult Care Food Program- Child Care Centers	10.558	75V8003	57,784
USDA - NRCS			43,952
Total passed through Texas Department of Agriculture			\$ 109,643
U.S. Department of Homeland Security			
Pass-through Texas Department of Homeland Security			
Operation Stonegarden	97.067	09-48902-01	\$ 164,664
Total expenditures of federal awards			\$ 3,454,265



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Generally Accepted Accounting Standards (GAAP)



GAAP for Tribes – THE BASICS

- GAAP = Generally Accepted Accounting Principles
- GAAP are a set of guidelines
- GAAP tells accountants what should be included in the financial statements
- GAAP establishes a level playing field – so that all companies account for transactions and report in a similar fashion
- Two primary GAAP Standard Setters
 - GASB – GAAP for governmental entities – **This is what you follow**
 - FASB – GAAP for commercial companies

GAAP for Tribes – THE BASICS

- The AICPA *Code of Professional Conduct*, Appendix A, names the GASB as the body with the authority to establish accounting principles for state and local governments (including Tribal governments and their Casinos).
-
- The hierarchy of GAAP for governments is set forth in [GASBS No. 76](#) (Exhibit [1-2](#)).
-
- For state and local governments, GASB pronouncements take precedence over standards set by any other organization.
-
- [GASBS No. 62](#) codifies pre-November 30, 1989 accounting and reporting requirements contained in FASB and AICPA pronouncements that are applicable to state and local governments, modified, as appropriate, for governments.

GAAP Resources





Understanding the Audit Process and Key Terms



The Role of the External Auditor

- Licensed by the States, regulated by federal and state government and the AICPA (American Institute of Certified Public Accountants)
- Independent, unbiased, nonpolitical
- Responsibility to all users of the financial statements

The Auditor's Report

- Are the financial statements “fairly stated” and “materially” correct?
- **MATERIALITY**
 - Technical definition: “Information is material if its omission or misstatement could influence the economic decisions of users.”
 - Plain English: Information is material if it is big enough for the typical user to care.

The Auditor's Report (page 1)

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Pueblo of Colorado as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the Pueblo's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Pueblo's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Financial statements are Management's responsibility

Auditor's responsibility is to express an opinion of reasonable assurance that the financial statements are free of material misstatement

Auditors use judgment & sampling – auditors do not test everything

The Auditor's Report (page 2)

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Pueblo as of December 31, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions – highest level of assurance

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the statement of revenues, expenditures and changes in fund balances – budget to actual – general fund, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Matters – Required Supplementary Information

The Auditor's Report (page 2)

Other Matters – Other Information –
Combining Financial Statements

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The combining financial statements of the nonmajor governmental funds, the fund and investments by tiers are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining financial statements of the nonmajor governmental funds, the and Casino fund and investments by tiers are the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining financial statements of the nonmajor governmental funds, the and Casino fund and investments by tiers are fairly stated, in all material respects, in relation to the basic financial statements as a whole.



Auditor's Report - Understanding Audit Findings



Other Auditor's Reports (Governments)

GAGAS Report on *Internal Control Over Financial Reporting* and on *Compliance* and *Other Matters*

Report on Compliance with Requirements That Could Have a *Direct and Material effect on Each Major Federal Program* and on *Internal Control over Compliance* in Accordance with OMB Uniform Guidance

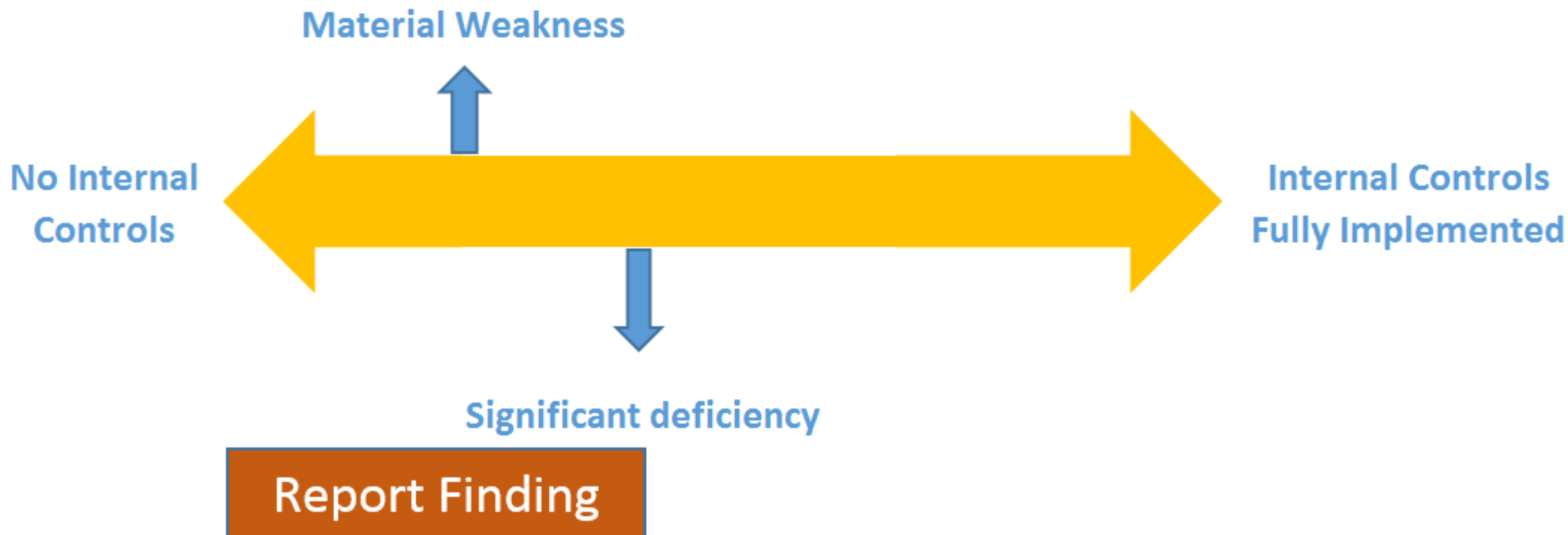
- Financial Reporting Findings
 - Internal Controls, Compliance over FCR

- Federal Program Findings
 - Internal Controls, Compliance over Major Programs

Audit Findings - Deficiencies in Internal Controls

- A **deficiency in internal control** exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.
- A **material weakness** is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Tribe's financial statements will not be prevented, or detected and corrected, on a timely basis.
- A **significant deficiency** is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance

Deficiencies in Internal Controls - Spectrum



Audit Findings - Noncompliance

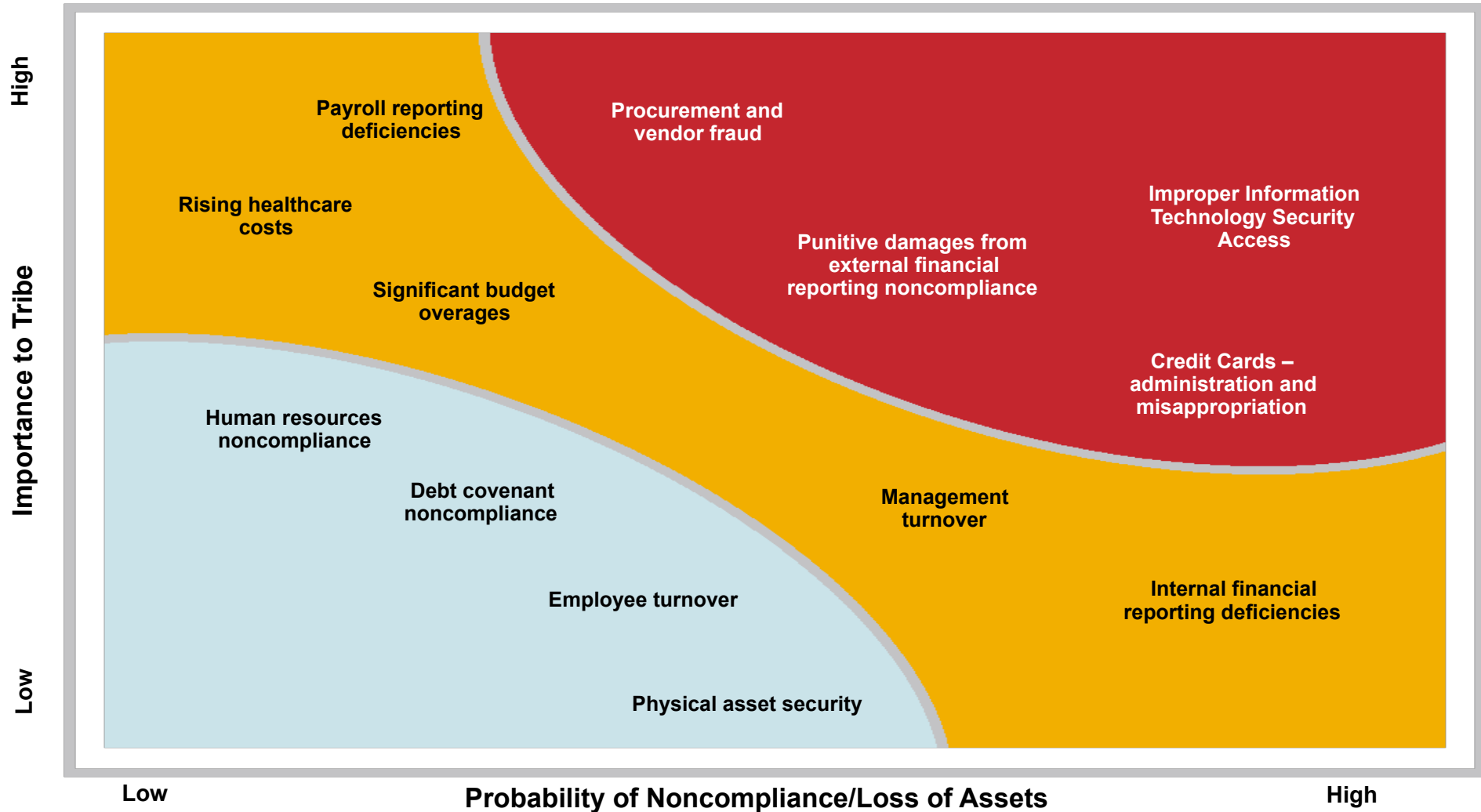
- **Fraud and noncompliance** that has a material effect to the provisions of laws or regulations
- Noncompliance with the provisions of grants and agreements that has a **material effect to the financial statements**
- **Abuse** that is material, either quantitatively or qualitatively
- Noncompliance with federal statutes, regulations, or the terms and conditions with federal awards of **major programs**
- **Known questioned costs or likely questioned costs** of major programs that exceed \$25,000



Financial Risks of Tribal Governments



Tribal Financial Reporting Risks



Conditions That Increase Risk

- Lack of segregation of duties
- Too much personal or implied trust
 - Approval of documents without review
 - Lack of verification after system posting
 - Lack of reconciliations
- Lack of proper follow-up
- Weak or Lack of internal controls
 - Cash, Purchasing, etc.
- Lack of knowledge of policies and procedures



Weak Internal Controls Increase Risk Through...

- Business Interruption - system breakdowns or catastrophes, excessive re-work to correct for errors.
- Erroneous Management Decisions - based on erroneous, inadequate or misleading information.
- Fraud, Embezzlement and Theft -by management, employees, customers, vendors, or the public-at-large.
- Statutory Sanctions- penalties arising from failure to comply with regulatory requirements, as well as overt violations.
- Excessive Costs/Deficient Revenues - expenses which could have been avoided, as well as loss of revenues to which the organization is entitled.
- Loss, Misuse or Destruction of Assets -unintentional loss of physical assets such as cash, inventory, and equipment.

Information Technology Risks

- Cybersecurity attacks
- Unlocked windows
- Misconfigured systems
- Missing patches
- Antivirus out-of-date
- Email phishing
- Vendor backdoors
- Spyware
- Systems not monitored
- Unnecessary protocols
- Poorly defined procedures
- Stolen credentials
- Poor password protection
- Poor Disaster Recovery
- Violations not reported



Important Matters to Know About Fraud



The Fraud Environment

OPPORTUNITY

I'll take the cash from the deposit, write-off the A/R as bad debt...I can work around the controls

INCENTIVE

How will I pay my bills?
Kids need...
I want ...



RATIONALIZATION

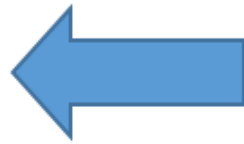
I deserve a raise...
I work long hours..
I should have been promoted..
I'll pay it back...

Fraud – The Other Employee Benefit

REPORT TO THE NATIONS 2018 GLOBAL STUDY ON OCCUPATIONAL FRAUD AND ABUSE IN GOVERNMENTS



FRAUD



Every government loses at least 5% of their revenues to fraud

16% of all cases in this report represent fraud in government

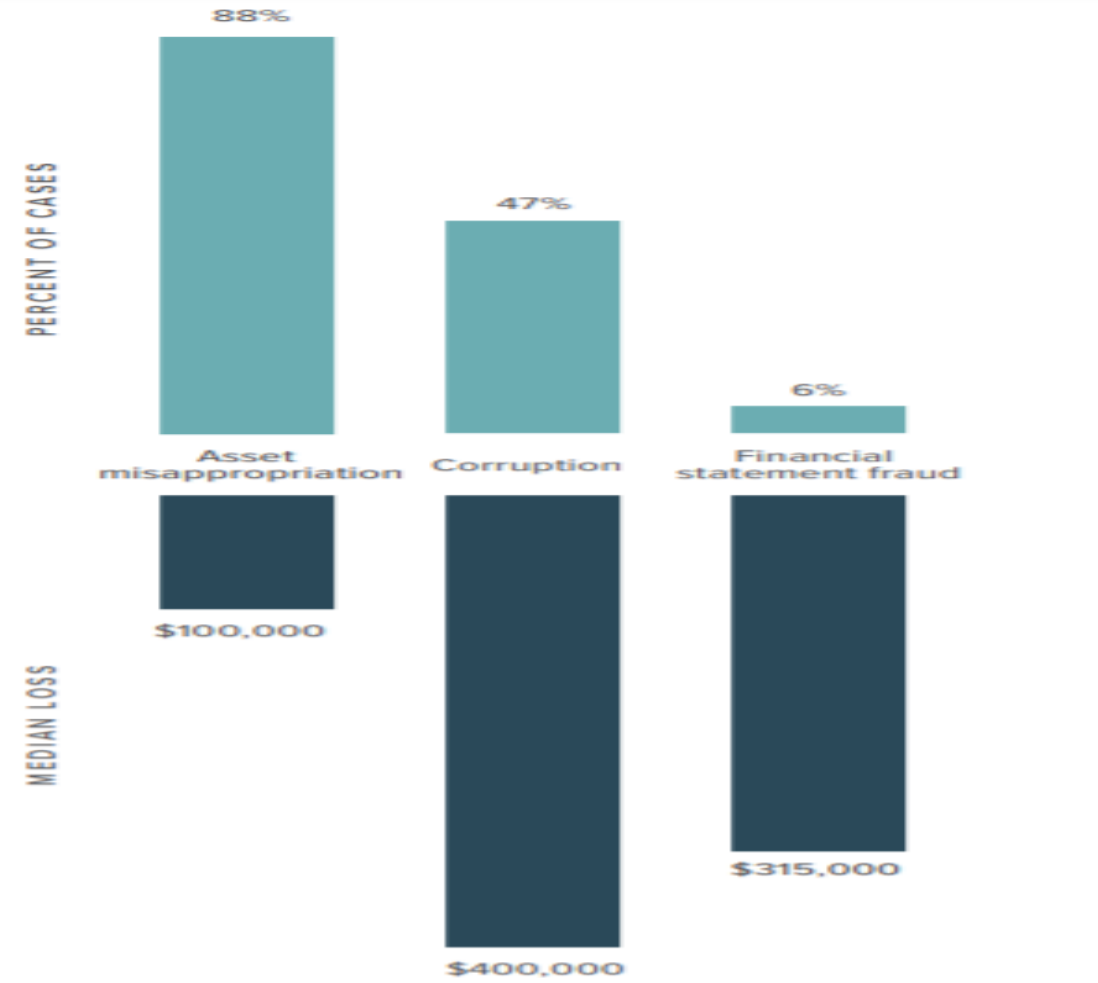
Took 18 months on average to detect fraud scheme in govt

Fraud – The Other Employee Benefit

Asset misappropriation is still the **most common form** of fraud and “Cash Schemes” are the **most common type** of **asset misappropriation**. Also includes embezzlement manipulating accounts or creating false invoices.

Corruption is fraud undertaken by a person entrusted with a position of authority and includes **bribery and embezzlement**. **Political corruption** occurs when an office-holder or other governmental employee acts in an official capacity for personal gain.

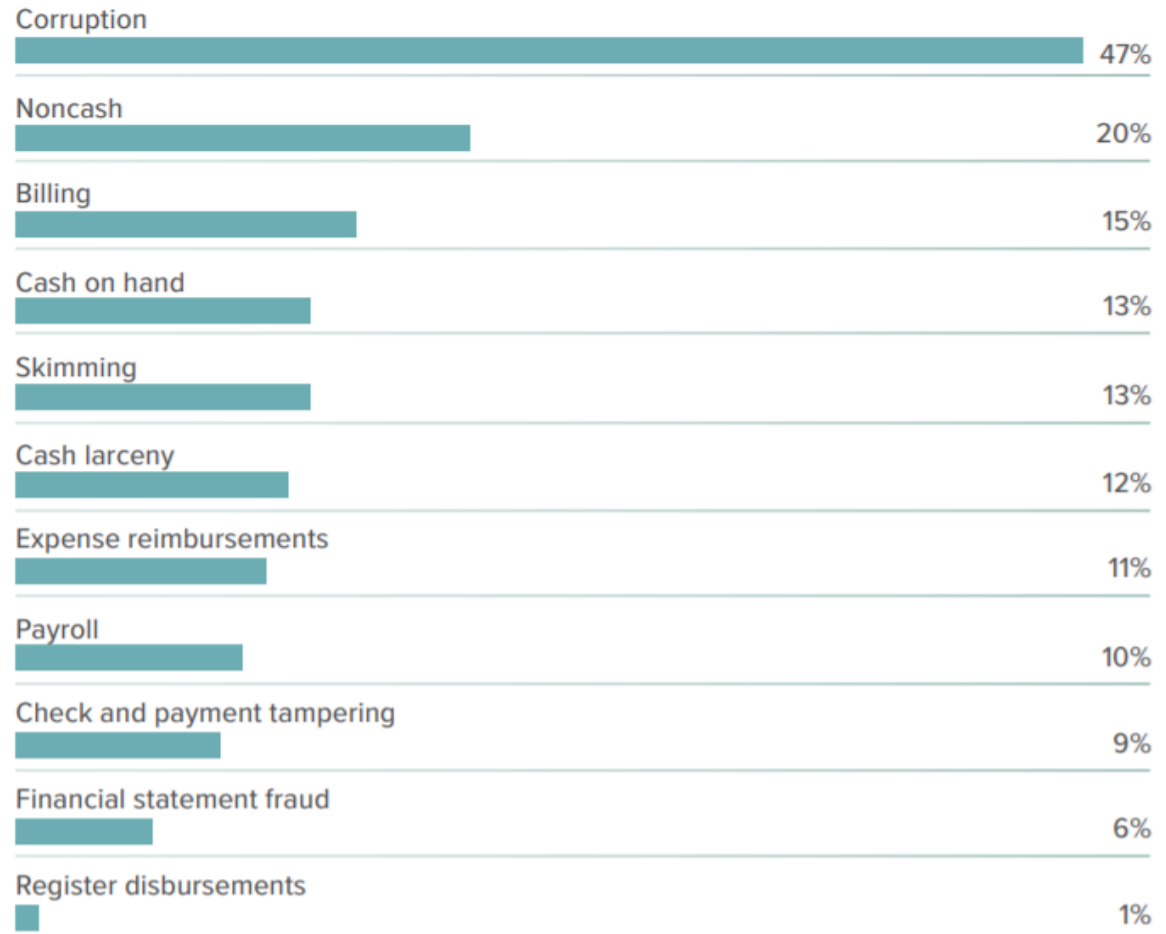
Financial statement fraud is the deliberate misrepresentation of the financial condition of a government accomplished through the intentional misstatement or omission of amounts and disclosures in the financial statements to deceive financial statement users.



Fraud – The Other Employee Benefit

What are the most common occupational fraud schemes in government agencies?

Note: Since asset misappropriation is by far the most common, the report broke that out into subsections

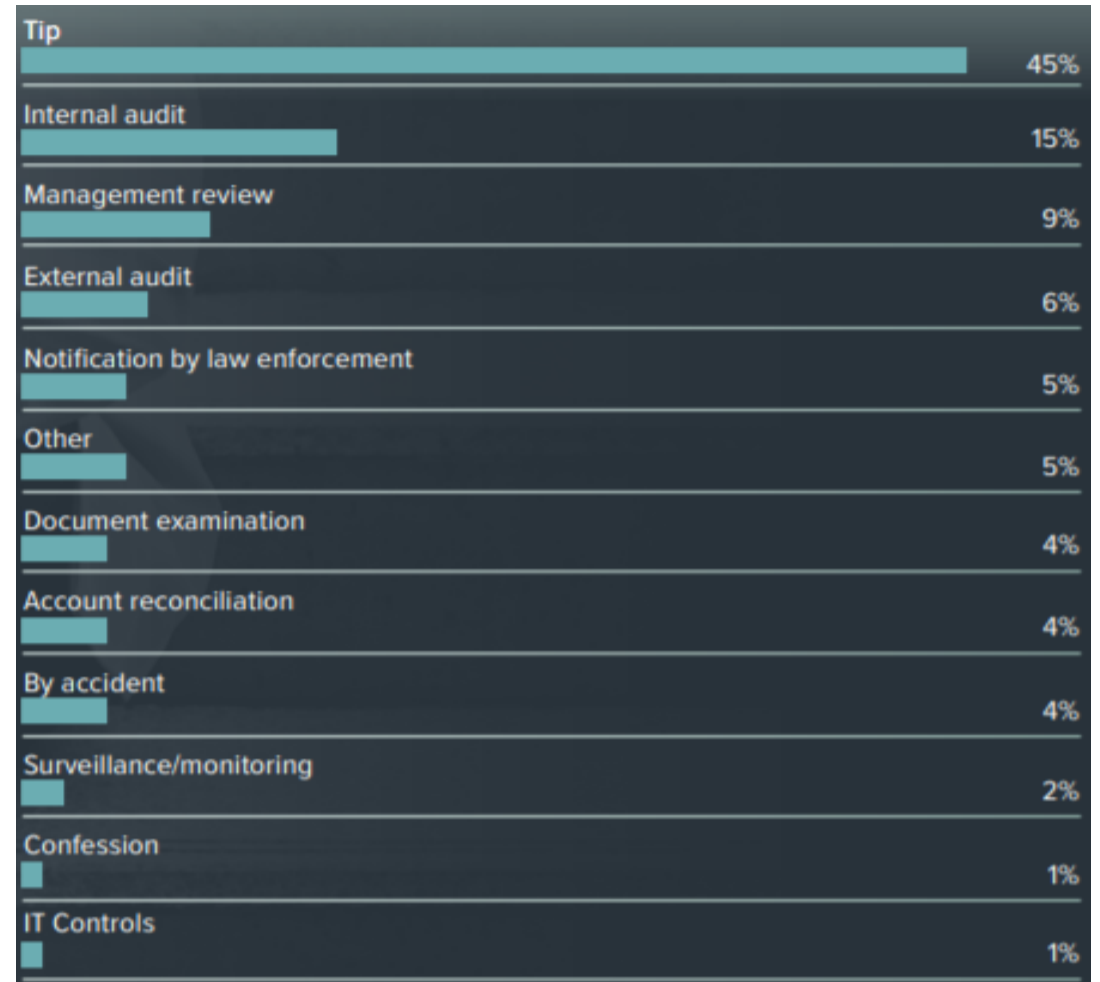


Fraud – The Other Employee Benefit

How is occupational fraud initially detected in government agencies?

Government fraud cases were discovered by “Tips” than in the next six detection methods combined.

Implementing hotlines—66% of cases were detected by tip when a hotline was in place, compared to 34% in government organizations without one.



Examples of Fraud

Examples of Fraud Risks at Tribes

- False invoicing
- Credit card misuse
- Manipulations in the procurement process (procuring low quality items, receiving kickbacks for referring contract work)
- Theft and skimming (e.g. removing and selling inventory, cash, consumables, or information, fraudulent acceptance of goods and services, and receiving compensation without reporting transactions)
- Fraudulent expenditure claims (e.g. using false receipts to claim travel and accommodation allowances)
- Theft of assets or inventory
- Financial statement fraud
- Stealing cash on hand
- Check and payment tampering
- Expense reimbursement fraud
- Per capita payment processing
- Billing manipulation
- Insurance claim fraud
- Construction change orders/overbilling
- Grant fund fraud
- Corruption
- Payroll fraud (e.g. adding fake employees to the payroll or claiming overtime for hours not worked).



Best Practices for Internal Controls



Examples of Internal Controls

Examples of Internal Controls at Tribes

- Establishing an anonymous fraud reporting hotline
- Segregating duties (recording, handling and authorizing)
- Those charged with governance approving large transactions
- Surprise audits
- Creating an internal audit department
- Rotating job duties
- Mandatory vacations
- Establishing anti-fraud policies
- Fraud training for employees and managers
- Establishing a code of conduct
- Conduct periodic inventory of assets
- Performing monthly reconciliation of accounts
- SOC 1 of third party administrators
- Construction project oversight
- Establishing IT automated controls
- Oversight from more than one department
- Tone at the top
- Periodic budget to actual variances
- Pre-employment background checks
- Limiting access to bank accounts and wire transfers
- Providing rewards to whistleblowers
- Separating human resource and payroll activities

Management's Role...

...in Risk and Control

General Expectations

- Clarity in objectives and program parameters
- Identify and manage risks
- Design, implementation and maintenance of the control structure within business processes
- Contribute direction to identify, prioritize and review risks and controls
- Remedy control deficiencies
- Periodically,
 - review results, reassess risks, test controls
 - confirm key controls are implemented and effective
 - maintain documentation to support this assessment



Why Controls Do Not Always Work

- **Inadequate knowledge of policies or governing regulations.** *“I didn’t know that!” “The rules were unclear.”*
- **Inadequate segregation of duties.** *“We trust ‘A’ who does all of those things.” “Senators approve their own expenses.”*
- **Inappropriate access to assets.** *Passwords shared, cash not secured...*
- **Form over substance.** *“You mean I’m supposed to do something besides initial/sign it?”*
- **Control override.** *“I know that’s the policy, but we do it this way.” “Just get it done; I don’t care how!”*
- **Inherent limitations.** *People are people and mistakes happen. You cannot foresee or eliminate all risk.*

8 Best Practices For Tribes

1. **"Tone at the Top."** "A Tribe needs to have a culture of communication. Top management and council should have an open-door policy and proactively communicate the importance of ethical behavior.
2. **Segregation of Duties**
Separates those who have access to the certain processes within the Tribe from those responsible for record keeping.



8 Best Practices For Tribes

3. Whistleblower Policy and Hotline

Have a process in place for employees to anonymously report suspected fraudulent activity

4 & 5. Rotation of Personnel and Mandatory Vacations

These two go hand in hand. The reason: often times in a Tribal government, fraud is perpetrated by an employee who is "super helpful" and single-handedly takes care of everything.

Rotation of personnel also helps in cross-training



8 Best Practices For Tribes

6. Reconciliation and Review Process

Every Tribe should have a standard reconciliation and review process in place

7 & 8 Setting of Accounting System Privileges, and Reviewing and Adjusting Access Levels

Payroll employees do not need access to accounts payable. Accounts receivable employees do not need access to employee records





Q & A



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