

The cover image features a desert landscape with a prominent butte in the foreground and other mesas in the distance under a blue sky with light clouds. The text is overlaid on this image.

MOSS ADAMS TRIBAL FINANCE QUARTERLY

LOOKING OUT FOR TRIBES' FINANCIAL SUCCESS

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Establishing Internal Controls: A Risk-Based Approach

by Ryan Luetkemeyer, Senior Manager, Tribal Government Group

As a tribal CFO, you might often get recommendations for improving your tribe's internal controls—from auditors, council members, program directors, and others. And to be sure, the consequences of not having adequate internal controls in place to address the threats to your organization are extensive. But adding new processes that aren't well thought out or properly administered can often provide more cost than benefit.

Rather than taking this reactive approach, more and more tribes are proactively addressing internal controls. They're doing this through organization-wide programs that identify the top risks to the tribe—and the safeguards needed to respond to those risks.

Larger tribes use an internal audit or other separate function for this, but even if your budget doesn't allow for that, with a bit of planning you can still perform an organization-wide risk assessment. The key is to bring management, staff, and perhaps elected officials together to discuss threats that might affect your tribe. The result will not only provide a thoughtful discussion that could evoke change but also identify inefficiencies that erode the security of your tribe's finances.

Let's take a look at a few key things you can do to start the process.

Brainstorm About Risk

Consider what events, if they came to pass, would be most detrimental to your organization. These could be:

- External and internal theft
- Reductions in grants or other critical revenues

Planning Opportunity for Tribes: New Fund Balance Categories

As tribes begin to plan for implementation of Government Accounting Standards Board (GASB) Statement No. 54, some planning opportunities have presented themselves through the new fund balance categories of Committed and Assigned. You can leverage these new categories to set aside resources for future uses, such as capital projects or for a rainy-day fund. This tells financial statement readers that the Committed and Assigned amounts have already been spoken for and aren't available for general budgetary purposes.

GASB 54 does have some rules that must be followed to consider fund balances as Committed or Assigned at year-end, so be sure to carefully consider the details of the new statement.

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- Computer viruses and server crashes
- Misuse of grant or tribal funds
- Noncompliance with a grant-funded program or other audit findings
- Natural disasters
- Unexpected turnover in key positions

Many organizations that don't proactively discuss risk often end up dealing with more audit findings. Do you have monthly or quarterly meetings that are conducive to discussing risks and controls on a regular basis? Open up the discussion for each manager and staff member to address this one question about risk: "What could go wrong in your department?" Then brainstorm the results and prioritize the risks to determine which are the most critical.

Understand Your Key Internal Controls

Once you've identified the top risk factors, discuss what safeguards are in place that best respond to each risk and ensure that solid controls are established for the most critical ones. To improve efficiency, consider eliminating existing processes and controls that don't address critical risk factors (in other words, those that just add red tape without addressing a critical risk).

It's also a good idea to encourage discussion among departments to consider centralized processes that address common risk factors. For example, perhaps some departments receive invoices from vendors directly and send them to your accounting department weekly. In such cases it might be beneficial to have vendors submit invoices and correspondence directly to the accounting department. This will reduce the risk of misplaced invoices and invoices paid more than once. It could also reduce administrative tasks for the departments.

Inspect What You Expect

Once the top risk factors and associated processes and controls are determined, you're ready to establish monitoring processes to ensure the controls are operating effectively. The monitoring should be frequent and well documented to serve as a trail and a formal record of progress. If budgets permit, an internal audit function should take the lead. Otherwise, the monitoring should be overseen by an experienced member of top management.

It Pays to Be Proactive

The key to performing the exercises above is to encourage an environment that constantly addresses risk and effectively adapts to change. If your organization typically makes changes to internal controls solely in reaction to audit findings, you'll constantly be adding new processes on top of others that may no longer provide value to your tribe's security.

However, by proactively and continually assessing the risks facing your tribe—and establishing and evaluating controls designed to address them—you can not only reduce the risks to your tribe but also gain efficiency.

Contact Us

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TRIBAL RETIREMENT PLANS FORUM

Moss Adams is collaborating with Merrill Lynch, Foster Pepper PLLC, and Means & Associates LLC on a one-hour webcast on July 20. Titled "Action Plan for Maintaining Compliance and Risk Management," this training will provide perspectives on best practices from attorneys, administrators, financial advisors, and accountants who serve tribal retirement plans. [Register now](#)