



Helping Your Tribe Through the Current Economic Crisis

by Jim Sharpe and Ryan Luetkemeyer | Moss Adams LLP

As we carefully navigate this first quarter of 2009, we are seeing the effects of the economic recession on tribes throughout the United States. Many are experiencing reductions in their investment portfolios and seeing increases in the number of members needing assistance from tribal social services programs. And—as to be expected during a deep economic recession like this one—all tribes are at greater risk of theft and fraud.

Here are some proactive steps you can take to protect your tribe during these uncertain times (more information on each step is included on pages 2-3):

- > **MANAGE YOUR INVESTMENT RISKS**
- > **STRENGTHEN YOUR CONTROLS OVER FRAUD AND ABUSE**
- > **PROVIDE TIMELY, ACCURATE FINANCIAL INFORMATION**
- > **SQUEEZE MORE OUT OF YOUR BUDGETS**

Being proactive in addressing these risks in today's economic environment is a critical step in minimizing the potential negative impacts on your tribe. Though we have all seen hard times before, it is important that all tribal leadership, members, and employees have the information needed in order to address these concerns together. Implementing these steps will not only assist your tribe in managing important risks during a difficult time, it will also assist your tribe in developing good financial habits that will reap rewards in the future.

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> **MANAGE YOUR INVESTMENT RISKS**

It is extremely important that tribal officials understand investment risks and ensure they are addressed in the tribe's investment policies, especially these areas:

- ➊ **Credit Risk:** Your investment policies should specify a minimal level of credit quality ratings for investments in debt securities to protect against loss due to the failure of the issuer. It's important to monitor the health of those issuers because changes can occur quickly.
- ➋ **Custodial Credit Risk:** Deposits and investments are at risk if they exceed \$250,000 and are not covered by FDIC insurance or otherwise collateralized by the bank. Your investment policies should address this risk, and you should consider prohibiting uninsured and uncollateralized bank deposits.
- ➌ **Concentration of Credit Risk:** If your investments are overly concentrated (not diversified), then there is much greater risk of loss. Consider limiting concentrations in any one issuer to less than 5 percent of your total investments, unless they are guaranteed or insured.

> **STRENGTHEN YOUR CONTROLS OVER FRAUD AND ABUSE**

It is good practice to segregate the custody, authorization, and recordation of cash transactions. It is not always practical to segregate all accounting-related duties, however. You can add some low-cost procedures to your tribe's accounting process that greatly reduce the risk of fraud and abuse:

- ➊ **Positive Pay:** This bank service prevents unauthorized disbursements by allowing to clear your bank only those checks that you have specifically authorized ahead of time.
- ➋ **Anonymous Fraud Reporting:** Most fraud is uncovered through anonymous tips. Provide your employees, customers, and vendors a hotline, mailbox, or messaging service to report fraud or abuse. Publicize the service wherever and whenever possible to get the word out.
- ➌ **Inventory of Equipment:** Keep your equipment under control by requiring a physical inventory at least annually, especially for sensitive and expensive electronic equipment.

> **PROVIDE TIMELY, ACCURATE FINANCIAL INFORMATION**

Accurate and timely financial data allows for more effective monitoring of a tribe's finances. Make sure your tribal finance officers each month reconcile to supporting documentation all key general ledger accounts such as cash, investments, receivables, and payables.

> **SQUEEZE MORE OUT OF YOUR BUDGETS**

With decreased investment revenues and increased pressure to provide services, tribes will need to monitor their budgets more closely than in the past.

- ➊ Compare your program budgets to actual results and monitor variances at least monthly to ensure significant overages are discovered early. If you are not already using budgetary controls in your purchasing system, now is the time to implement that control.
- ➋ Centralize your procurement process to ensure all purchasing is done by a purchasing expert. This reduces the amount of purchases made, increases high-volume discounts, and eliminates potential conflicts of interest that result when purchasing is done by many individuals.
- ➌ Improve your cash flow by assuring you are obtaining grant cash as soon as it is available. For reimbursement-based grants, this means obtaining those funds every month, rather than waiting until year end. For grants that pay based on the tribe's submission of a reimbursement report, it's important to monitor those reports to ensure that grantors actually pay them.

