

# Operational/Financial Audit Report

## Oneida Seven Generations Corporation

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Report Date:

October 30, 2008

Internal Audit Department  
Oneida Tribe of Indians  
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**Background**

Oneida Seven Generations Corporation (OSGC) is a tribally chartered corporation formed in 1997 by the Oneida Business Committee (BC) based on authority vested in it by the Oneida General Tribal Council (GTC). OSGC was created to promote and enhance economic diversification to develop long-term income streams for the corporate stockholders' and is directed by a five member Board of Directors appointed by the BC.

Following is a listing of the business ventures OSGC is currently involved in and the members and related interest in each business venture.

Limited Liability Companies (LLC's)					
LLC Name	OSGC Percentage Interest	Member(s)		Mortgages/Notes	
		Name	Percentage Interest	Total O/S Debt	As of Date
Glory	100.0%	n/a	n/a	\$ 1,681,736	06/26/08
Oneida Generations	51.0%	Oneida Tribe of Indians of Wisconsin	49.0%	\$ 3,922,311	06/26/08
O'Hare	51.0%	Venture Properties of the Fox Valley, LLC	49.0%	\$ 339,233	06/01/08
North Packerland	51.0%	Craig Kassner - Best Built, Inc.	49.0%	\$ 435,725	06/26/08
Partnership Drive	51.0%	DeCaster Properties, LLC	49.0%	\$ 5,400,000	05/26/08
Isbell	33.33%	Best Built, Inc.	33.33%	\$ 905,235	09/30/07
		RMC Capital, LLC	26.66%		
		Swakwoko, LLC	6.66%		
Babcock I	51.0%	Management Enterprise	27.50%	\$ 15,631,956	06/10/08
		James Strohschein	12.15%		
		Physician Building Partnership, LLP	5.83%		
		GB0 Real Estate Partnership	3.52%		

**Finding One:** OSGC was not in compliance with Article XIII of the Corporate Charter

**Condition:**

Article XIII of the Corporate Charter requires that semi-annual reports be filed with the Secretary of the Business Committee (BC) and written annual and semi-annual reports be filed with the General Tribal Council (GTC). Reports filed must include the following information:

- The business done and intended to be done by the Corporation;
- Material changes and developments since the last report in the business described;
- Any material pending legal proceedings to which the Corporation is a party; and
- Financial statements of the Corporation, including a consolidated balance sheet and consolidated statement of income and source and application of funds.

Internal Audit obtained and reviewed the quarterly reports submitted to the BC for the period 10/01/06 through 04/30/08. Based on this review, the following exceptions/concerns were noted:

- OSGC was not preparing nor remitting a source and application of funds report to the BC.
- Internal Audit was unable to sight written evidence informing the BC of a material change/development regarding a "Notice of Default" sent to Nature's Way on April 8, 2008, requesting removal of equipment from leased property and payment of \$221,598.91 in outstanding rental income by May 8, 2008.
- Internal Audit was unable to sight written evidence informing the BC of a material change/development regarding OSGC's forgiveness of \$196,303.03 in uncollected rental income from Plaza Family Restaurant. *Notes: \$126,637.88 of this amount was attributed to a Build-out clause in the agreement.*

Internal Audit also reviewed the semi-annual and annual reports filed with the GTC (2007 - 2008) and determined that the information submitted to the GTC was based on a request from the Chief of Staff and not the provisions noted within Article XIII of the Corporate Charter. As a result, information regarding material changes and/or developments, material pending legal proceedings and financial statements of the Corporation were omitted from these submissions.

**Recommendation:**

Procedures should be developed and implemented to ensure that the requirements associated with Article XIII of the Corporate Charter are reviewed and complied with for both the Business Committee and the General Tribal Council. If the Board of Directors and management, with the consent of the Business Committee, determine that certain requirements are no longer applicable the Corporate Charter should be revised and approval documented to reflect this.

**Finding Two:** The Return on Investment (ROI) information provided to the Business Committee (BC), surrounding business ventures, appears to be incomplete and did not take into account all related expenditures in its ROI calculations.

**Condition:**

At the most recent annual stockholders meeting (01/16/08) OSGC was requested by the BC to provide ROI information for every partnership investment. The following charts represent the information provided to the BC:

Company Name	Rent Paid	Mortgage Paid	Amount Over Mtg	OSGC's 51%	OSGC's Annual Return	Investment	ROI
O'Hare, LLC	\$ 3,500	\$ 2,812	\$ 688	\$ 351	\$ 4,208	\$ 51,254	8.21%
North Packerland, LLC	\$ 4,400	\$ 3,516	\$ 884	\$ 451	\$ 5,407	\$ 57,100	9.47%
Partnership Drive, LLC	\$ 54,630	\$ 41,630	\$ 13,000	\$ 6,630	\$ 79,560	\$ 663,090	12.00%

Company Name	Ownership %	Investment Amount	Mortgage	Current Value	Total Equity	OSGC's Equity	ROI
Babcock, LLC	51%	\$ 1,000,000	\$ 15,179,866	\$ 25,500,000	\$ 10,320,134	\$ 5,263,268	19%

Internal Audit reviewed this information and noted the following concerns:

- There was no ROI calculation for Isbell, LLC or written explanation to support omission.
- Internal Audit was unable to agree the Investment amount utilized by OSGC in its calculation of the ROI for O'Hare, LLC (no timeframe was indicated). In addition, OSGC failed to take into consideration other expenditures associated with this LLC (i.e., property tax payments and other expenses). As a result, the reported 8.21% ROI does not appear accurate. See recalculation of ROI prepared by Internal Audit below.

	2007	
	Total	OSGC (51%)
Return on Investment (ROI)		
Income	\$ 35,500	\$ 18,105
Expenses	\$ (48,198)	\$ (18,226)
Net Income (Loss)	\$ (12,696)	\$ (121)
Investment (Capital Contributions)	\$ 109,021	\$ 59,913
ROI	-11.65%	-0.20%

- Internal Audit was unable to agree the Investment amount utilized by OSGC in its calculation of the ROI for North Packerland, LLC (no timeframe was indicated). In addition, the ROI calculation for North Packerland, LLC was based on projections rather than actual results, with no additional information provided to reflect this. As a result, the reported 9.47% ROI does not appear accurate. See recalculation of ROI prepared by Internal Audit below.

	FY 2007	
	Total	OSGC (51%)
Return on Investment (ROI)		
Income	\$ -	\$ -
Expenses	\$ (45,363)	\$ (15,637)
Net Income (Loss)	\$ (45,363)	\$ (15,637)
Investment (Capital Contributions)	\$ 181,000	\$ 92,310
ROI	-25.06%	-16.94%

- The ROI calculation for Partnership Drive, LLC was based on projections due to its recent completion date (June 2008). Therefore, sufficient history was unavailable to verify the accuracy of this calculation.
- Internal Audit was unable to verify the ROI calculation for Babcock I, LLC due to insufficient information.

**Recommendation:**

Procedures should be developed and implemented to ensure that sufficient financial data is obtained on all business ventures. In addition, procedures should be developed and implemented to ensure that all Business Committee requests are prepared completely and accurately. The Corporation should continue to provide this information to the Business Committee, if deemed beneficial, and provide accompanying notes to further explain information presented.

**Finding Three:** Internal Audit was unable to verify compliance with Article IX of the Corporate Charter

**Condition:**

Article IX of the Corporate Charter requires that OSGC establish a cash reserve for debt service equal to six monthly debt payments and one (1) years' working capital. (Note: Debt payments are defined as principal and interest payments on all current debts of OSGC and working capital defined as current assets less current liabilities.) The following chart represents information obtained from OSGC pertaining to cash reserves for debt service.

Debt Service Information - As of 06/26/08			
Entity	Building/Property	Monthly Amount	Total Debt
OSGC			
• U.S. Bank	Casino Warehouse	\$ 12,600.00	\$ 809,300.53
• M&I #22488	Food Distribution	\$ 6,011.88	\$ 459,147.70
• M&I #08222	Oneida Post Office	\$ 3,475.00	\$ 343,510.46
Glory:			
• Heartland	1555 Glory Road	\$ 18,380.00	\$ 1,681,735.06
Oneida Generations:			
• Heartland	29/32 Travel Center	\$ 41,389.00	\$ 3,922,310.67
O'Hare:			
Anchor Bank	1201 O'Hare Blvd	\$ 2,812.42	\$ 339,193.99
North Packerland, LLC			
• M&I Bank	712 N Packerland Drive	\$ 3,516.46	\$ 435,726.06
Partnership Drive, LLC			
• Johnson Bank	1410 Partnership Drive	\$ 40,794.45	\$ 5,400,000.00

Internal Audit reviewed this information and noted the following concerns:

- This information did not indicate the amount of debt reserve required.
- This information did not take into account working capital.
- This information did not include debt pertaining to Babcock I, LLC or Isbell, LLC.
- This information did not indicate the amount of cash reserves held as of 06/26/08.

Without adequate documentation to fully support OSGC's calculation, Internal Audit is unable to verify compliance with this provision.

**Recommendation:**

Procedures should be developed and implemented to ensure that Article IX of the Corporate Charter is fully understood and documentation reflects necessary calculation to determine compliance. In addition, the Corporation should provide this information to the Business Committee and/or General Tribal Council on a periodic basis, if deemed beneficial.

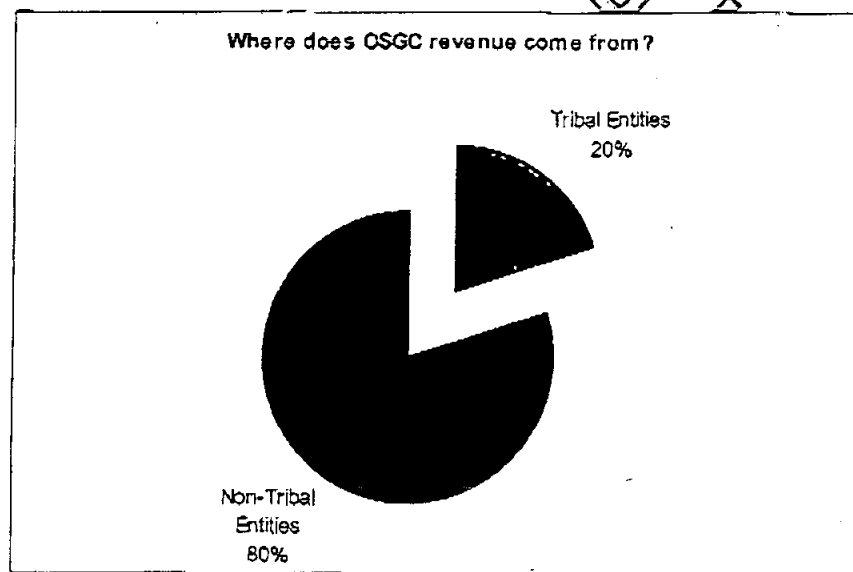
**Finding Four:** The information provided to the Business Committee (BC), surrounding the percentage of revenue generated from Tribal and Non-Tribal members, is misleading.

**Condition:**

At the most recent annual stockholders meeting (01/16/08) OSGC was requested by the BC to provide information surrounding the percentage of property leased to Tribal members. The following charts represent the information provided to the BC:

**Chart #1**

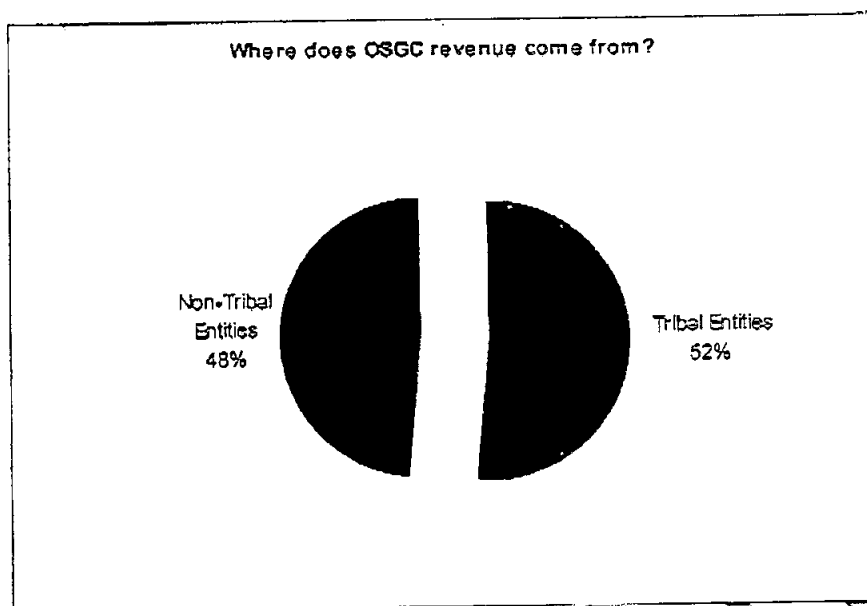
Tribal vs. Non-Tribal Members	Sq Ft.	Percentage
Square Footage (Tribal Entities)	75,195	20%
Square Footage (Non-Tribal Entities)	302,990	80%
Total Square Footage for Buildings	378,185	100%

**Chart #2**

Internal Audit reviewed this information and noted the following concern:

- While the information surrounding the square footage leased to Tribal and Non-Tribal members appears to be accurate (Chart #1), the above PIE Chart seems misleading (Chart #2). This chart creates the impression that the percentage of "revenue" generated from Tribal and Non-Tribal sources is directly proportionate to the square footage leased.

Internal Audit reviewed the revenue generated from Tribal and Non-Tribal entities and calculated the percentages to be approximately 52% and 48%, respectively. See chart below.

**Recommendation:**

OSGC should ensure that all information provided to the Business Committee is portrayed in a clear and accurate manner.

**Finding Five:** OSGC's Mission Statement was not being satisfied by certain business ventures.

**Condition:**

OSGC's Mission Statement reads as follows:

- The function and purpose of the Oneida Seven Generations Corporation is to promote and enhance business and economic diversification directly, or as a holding company for real estate assets, management of related assets, or as a holding company for other business ventures of the Oneida Nation of Wisconsin to develop long-term income streams for the corporate stockholders.

Internal Audit reviewed the financial results of the business ventures associated with OSGC and noted the following:

- While the operating revenue and net income reported for the first seven months of FY 2008 for Glory, LLC was approximately \$256,000 and \$157, respectively, the accounts receivable balance increased during this same period from \$175,000 to approximately \$222,000. These results reveal that Glory's only source of revenue, Nature's Way Tissue Corporation, was approximately six months delinquent in its rental payment as of 04/30/08. In addition, operating revenue reported in FY 2007 (\$420,000) was partially offset by a \$105,000 increase in accounts receivable from 10/01/06 (\$70,000) to 09/30/07 (\$175,000).

- Isbell, LLC, which was formed in October 2006 and represents a 33.33% investment by OSGC, reported a \$77,000 net loss in FY 2007. This investment has not generated revenue since its inception. *Note: Internal Audit was unable to determine OSGC's portion of this loss due to insufficient information.*
- North Packerland, LLC, which was formed in December 2006 and represents a 51% investment by OSGC, reported a \$15,600 net loss to OSGC in FY 2007. This investment continues to show a loss in FY 2008 and has not generated revenue since its inception.
- O'Hare, LLC, which was formed in October 2005 and represents a 51% investment by OSGC, reported a \$121 net loss to OSGC in FY 2007. *Note: This property was vacant from January through July 2008, but is currently being leased to a third party affiliated with Venture Properties, LLC at \$1,000 per month.*

### **Recommendation**

Plans and procedures should be developed/revised and implemented to ensure that each business venture is progressing toward, and periodically measured against, the goals and objectives established. In addition, this information should be communicated to the appropriate parties (i.e., Business Committee, General Tribal Council, etc.) on a regular basis.

**Finding Six:** Financial reports submitted to Central Accounting pertaining to OSGC were not reviewed until year-end.

### **Condition:**

Documentation obtained during the audit indicated that the level of review performed by Central Accounting over OSGC was as follows:

- Verification of work performed by OSGC's Administrator.
- Monthly receipt of reports pertaining to OSGC.

Internal Audit met with Central Accounting to discuss this level of review and noted the following:

- OSGC does submit reports to Central Accounting. However, monthly remittance is not consistently adhered to.
- The following reports are received by Central Accounting; Balance Sheet Detail, P&L YTD Comparison, Trial Balance and A/R Aging Summary reports.
- Central Accounting does not review or verify the work performed by OSGC. Rather, reports are utilized at year-end when compiling component unit information for the Tribe.

### **Recommendation:**

OSGC should develop and implement procedures to ensure that financial reports, determined to be useful in reviewing OSGC's activity, are remitted to Central Accounting/Finance on a consistent basis. Documentation should also be updated to reflect the reports submitted to Central Accounting/Finance.

In addition, Central Accounting/Finance should develop and implement procedures to ensure that financial reports received from OSGC are reviewed/analyzed on a regular basis and issues/concerns followed-up on and/or communicated to certain parties (i.e., Management, Business Committee, etc.), as appropriate.



**Chief Financial Officer Response:**

Management agrees with recommendation. Management will develop and implement a report for the Business Committee that will provide financial analysis surrounding Oneida Seven Generations Corporation and other Tribally Chartered Corporations. (Note: Based on discussion with Paul Van Noie, Chief Financial Officer, on November 26, 2008.)

**Finding Seven:** Proper segregation of duties was not maintained over the cash receipt/disbursement process. In addition, a formal account reconciliation was not prepared for certain bank accounts nor an independent review performed on all bank accounts.

**Condition:**

Cash receipts and disbursements are controlled through individual bank accounts established for OSGC and its various LLC's. A review of these accounts and related reconciliations prepared revealed the following exceptions/concerns:

- Incompatible duties were noted over the cash receipt/disbursement process as follows; one individual is responsible for receiving and recording receipts, preparing and recording disbursements, receiving monthly bank statements and preparing monthly reconciliations.
- An independent review is not performed on bank account activity or on the reconciliation prepared.
- A formal bank reconciliation is not prepared nor an independent review performed on bank accounts established for O'Hare, LLC, North Packerland, LLC or Partnership Drive, LLC.

**Recommendation:**

Current procedures should be strengthened to ensure that all bank accounts are formally reconciled monthly. In addition, if proper segregation of duties cannot be maintained over these accounts, procedures should be implemented to ensure that an independent review is performed and documented (e.g., signature/initials) on each reconciliation prepared.

**Finding Eight:** Adequate documentation to support sublease agreements between OSGC and third parties was lacking.

**Condition:**

Internal Audit obtained and reviewed the rental agreements between OSGC and numerous third parties and noted the following exceptions/concerns:

- Lease agreement between OSGC and Packerland Chiropractic expired on 12/14/07. As a result, Internal Audit was unable to verify the monthly rental amount.
- Lease agreement between High Hawk Distributing, LLC expired on 12/31/06. As a result, Internal Audit was unable to verify the monthly rental amount.
- Lease agreement between OSGC and Oneida Thunderwash, LLC expired on 03/12/07. As a result, Internal Audit was unable to sight documentation to support continuation of the \$750 monthly rental amount.

- Unable to verify the monthly rental amount to the current lease agreement between OSGC and Sun Seeker's.
- Unable to sight documentation to support continuation of the \$4,250 monthly rental amount for Food Distribution. A memo dated 9/23/03 indicated that the monthly lease amount (\$4,250) was to remain in effect for an additional 4 years (05/01/03 thru 04/30/07). However, no further documentation was sighted to support continuation of this amount.
- OSGC failed to implement a scheduled increase in the monthly rental amount for Subway Sandwiches & Salads on a timely basis. As a result, lost revenue totaling \$2,031.25 was realized by OSGC (\$1,406.25 new rental amount - \$1,250 old rental amount = \$156.25 in lost revenue x 13 months). *Note: Subway is affiliated with one of the Board members.*
- OSGC waived the assessment and collection of property taxes from Oneida Communications/Tourism Department totaling \$12,270 due to an oversight (2006 - \$2,884, 2007 - \$5,210 and 2008 - \$4,176). OSGC remained responsible for payment of these taxes.
- Unable to sight documentation to support continuation of the current \$35,000 monthly rental amount for Nature's Way Tissue Corporation. The current lease agreement dated January 12, 2004, between Glory, LLC and Nature's Way, indicated a monthly rental amount equal to \$57,000 per month.
- Unable to sight documentation to support the \$2,000 monthly rental amount for Plaza Family Restaurant, LLC. The now terminated lease agreement dated June 22, 2005, between Oneida Generations, LLC and Plaza Family Restaurant indicated a monthly lease amount equal to \$8,116.38. As a result of this termination, uncollected rental payments totaling \$196,303.03 were waived. *Note: Termination occurred on 05/28/06, with an effective date of 06/15/08.*
- Unable to sight documentation to support the \$11,475 monthly rental amount for Babcock I, LLC.

**Recommendation:**

Procedures should be implemented to ensure that adequate documentation is available to support the monthly rental amount for each lease agreement, including any deviations from the original contract. In addition, management should develop and implement procedures to ensure that requirements associated with each lease agreement are identified and complied with. The Board of Directors should hold management accountable for proper and timely enforcement of lease provisions.

**Finding Nine:** Procedures surrounding the disbursement process were not being followed. In addition, expenditures incurred by the CEO were self-approved.

**Condition:**

Internal Audit obtained and reviewed OSGC's procedures surrounding disbursements and noted the following:

- Invoices are held in a pending file until due.
- Checks are prepared and presented, along with the invoice, to the CEO for approval and signature (i.e., initials).

- Documentation is retained and filed to support each expenditure.

Internal Audit reviewed 103 transactions totaling \$956,871.80 between 10/01/06 and 04/30/08 to determine if the procedures reflected above were being followed. Based on this review, the following exceptions were noted:

- Internal Audit did not receive documentation to support three out of 103 transactions tested (or approximately 3%). The amount associated with these disbursements totaled \$452,528.24 and represents approximately 47.3% of the sample tested and 14.9% of the total disbursement population (\$3,030,894.80).
- Internal Audit was unable to sight evidence (i.e., initials) of CEO approval on seven out of 103 transactions tested (or approximately 7%). The amount associated with these disbursements totaled \$85,168.49 and represents approximately 8.9% of the sample tested and 2.8% of the total disbursement population (\$3,030,894.80).
- Internal Audit was unable to sight sufficient documentation (i.e., invoice) to support disbursement on five out of 103 transactions tested (or approximately 5%). The amount associated with these disbursements totaled \$2,018.94 and represents approximately .21% of the sample tested and .066% of the total disbursement population (\$3,030,894.80).

In addition to the above exceptions, Internal Audit also noted the following concerns:

- The CEO was allowed to self-approve expenditures. *Note: As a mitigating control, the OSGC Accountant/Office Manager processes all disbursements and has the ability to review/question any transaction. However, this individual reports to the CEO, thus making this a less effective control.*
- Work performed throughout the year by OSGC's independent auditor (Schenck) may impede their independence when performing the annual audit.

#### **Recommendation:**

The Board of Directors should ensure procedures are enforced and that disbursements are independently reviewed and tested periodically. The Board of Directors' should also ensure that work performed during the year by OSGC's independent auditors does not impact their independence when conducting the annual audit. Procedures should be developed and implemented to ensure that all expenditures incurred by the CEO are reviewed and approved by someone other than the CEO and an individual reporting to the CEO. Disbursement requests lacking sufficient documentation should not be approved.

**Finding Ten:** OSGC was not in compliance with Article 5 of the Corporate By-Laws.

#### **Condition:**

Article 5 of the Corporate By-Laws stipulate that all contracts or other instruments over \$15,000 be approved by a resolution of the Board of Directors'. Internal Audit requested all resolutions executed by the Board of Directors' and received resolutions dated December 20, 2001 through July 18, 2007. Internal Audit reviewed these resolutions, compared them to financial transactions and noted the following:

- Resolution #1, dated December 20, 2001, authorizing the CEO to approve all transactions up to and including \$2,000,000.

- On January 4, 2006, a \$360,000 promissory note, on behalf of O'Hare, LLC, was signed by the former CEO as managing member. Internal Audit was unable to sight a resolution passed by the Board of Directors' approving this transaction.
- On December 21, 2006, a \$450,000 promissory note, on behalf of North Packerland, LLC, was signed by the former CEO as managing member. Internal Audit was unable to sight a resolution passed by the Board of Directors' approving this transaction.
- On May 1, 2008, a \$5,400,000 promissory note, on behalf of Partnership Drive, LLC, was signed by the Board Chair, as managing member. Internal Audit was unable to sight a resolution passed by the Board of Directors' approving this transaction.

**Recommendation:**

Procedures should be developed and implemented to ensure that the requirements associated with Article 5 of the Corporate By-Laws are reviewed and complied with. If the Board of Directors and management, with the consent of the Business Committee, determine that certain requirements are no longer applicable, the Corporate By-Laws should be revised and approval documented to reflect this.

**Finding Eleven:** Discrepancies were noted within the 2007-2008 annual budget. In addition, actual results were not periodically compared to projections.

**Condition:**

Although the Corporate Charter and/or By-Laws do not specifically require the preparation of an annual budget one is prepared by OSGC.

Internal Audit reviewed the 2007 - 2008 annual budgeting process and noted the following concerns:

- Actual results are not compared to budgeted projections on a periodic basis.
- The current budgeting methodology does not provide specific information surrounding subsidiaries and/or business ventures.

Internal Audit also prepared a comparison between actual results (10/01/07 through 04/30/08) and budgeted projections. Based on this comparison, the following exception was noted:

- Budgeted land lease expense was understated by approximately \$24,000 for the period reviewed. A subsidiary ledger of all land leases does not appear to be maintained. Such a log could provide a comprehensive listing that includes inception and expiration dates, acreage of parcel, current and long-term lease commitments.

**Recommendation:**

Procedures should be developed and implemented to ensure that the annual budget is prepared completely and accurately. The current budgeting process should be strengthened to include detailed information pertaining to its subsidiaries and other business ventures.

Management processes should include periodic comparisons between actual financial results and budgeted projections to allow for better review/analysis of business activities. Results of the comparison should be available / provided to the Board of Directors regularly, the Business Committee if additional funding is sought, and/or General Tribal Council, if deemed necessary or beneficial.

**Finding Twelve:** A reserve was not established within the Allowance for Bad Debts and/or Uncollected Debts to reflect potential write-offs.

**Condition:**

Internal Audit obtained and reviewed the 09/30/07 and 04/30/08 accounts receivable aging reports and noted the following concerns:

- The outstanding accounts receivable balance for Nature's Way Tissue Corporation increased from \$175,000 (09/30/07) to \$221,598.91 (04/30/08).
- A "Notice of Default" was drafted and sent to Nature's Way on April 8, 2008, demanding removal of all equipment from leased property and full payment of uncollected rental income by May 8, 2008 (\$221,598.91).
- \$196,303.03 in uncollected lease payments, associated with Plaza Family Restaurant, LLC, was not reflected within either of the 09/30/07 or 04/30/08 accounts receivable aging reports reviewed. This amount was later waived and the lease agreement terminated. *Note: \$126,637.88 of this amount was attributed to a Build-out clause in the agreement.*

**Recommendation:**

Management should establish a reserve within the Allowance for Bad Debts and/or Uncollected Debts account to reflect any or all potential write-offs. In addition, management should report all at risk amounts to the Board of Directors and review this balance on a regular basis to ensure its adequacy.

**Finding Thirteen:** OSGC did not have a policy surrounding fixed assets. In addition, the subsidiary records used to support the general ledger balances did not agree as of September 30, 2007.

**Condition**

Internal Audit obtained and reviewed the 09/30/07 records surrounding fixed assets for OSGC and its subsidiaries and noted the following concerns:

- OSGC did not have a formal policy surrounding fixed assets. It appears that the subsidiary ledgers are maintained by the same external accounting firm which performs the annual audit. This may create an impairment of the firm's independence and objectivity.
- The 09/30/07 subsidiary records did not support the balance reflected within the general ledger. *Note: The difference between these two systems was less than \$10,000.*
- All buildings were being depreciated over an estimated useful life of 31.5 years, with the exception of one building being depreciated over 39 years. No explanation was documented.

**Recommendation**

Management should develop a fixed assets policy to provide guidance for the handling of all fixed assets. Once developed, all assets should be reviewed to ensure compliance with this policy. In addition, management should develop and implement procedures to ensure that subsidiary records support the general ledger balance. This could be accomplished by preparing a formal reconciliation between the two systems at least annually. The Board of Directors should review the combination of services provided by the external accounting firm to assure adequate independence is maintained.

**Finding Fourteen:** OSGC was not in compliance with Article 3 Section 4 of the Corporate By-Laws.

**Condition:**

Article 3 Section 4 of the Corporate By-Laws require board member compensation be set by a resolution adopted by the Board of Directors'.

Internal Audit obtained and reviewed the resolution(s) adopted by OSGC's Board of Directors'. Based on this review, the following exceptions were noted:

- Internal Audit was unable to sight a resolution establishing board member compensation.
- Alternatively, Internal Audit was able to sight documentation published within the annual and semi-annual GTC reports supporting board member compensation at \$200 per meeting. However, this information did not support board member compensation paid to the President and Secretary of the Corporation of \$250 per meeting.

**Recommendation:**

The Board of Directors should adopt a resolution establishing board member compensation in compliance with the requirement of their Bylaws. In addition, this resolution should include information pertaining to compensation based on board member responsibility/title, if applicable. Compliance with the Tribe's Comprehensive Policy Governing Boards, Committees and Commissions should be addressed.

**Finding Fifteen:** OSGC was not in compliance with Article IV of the Corporate Charter and Article 1 of the Corporate By-Laws. In addition, several Operating Agreements associated with Limited Liability Companies (LLC's) listed the former CEO as the Managing Member.

**Condition:**

The former CEO is listed as the registered agent within the Corporate Charter (Article IV) and By-Laws (Article 1). He is also listed as the managing member within several operating agreements among the various business ventures entered into by OSGC.

During the audit it was determined that the former CEO resigned on May 7, 2008. As of August 31, 2008; he was still reflected within the Corporate Charter and By-Laws as the registered agent and as the managing member on several operating agreements.

**Recommendation:**

The Corporate Charter and By-Laws should be updated to reflect the change in the registered agent for OSGC. In addition, the appropriate operating agreements should also be updated to reflect this change. Consideration should be given to revising these documents to reflect job titles rather than individual names.

**Finding Sixteen:** Job descriptions have not been developed for each position within OSGC.

**Condition:**

During the audit the following job titles were noted within OSGC:

- Chief Executive Officer (CEO)
- Project Manager
- Accountant/Office Manager
- Leasing Specialist (PT)

Internal Audit reviewed this information and determined the following:

- The job description for the Project Manager was created specifically for OSGC and does appear to reflect an accurate description of the responsibilities and duties of this position.
- The responsibilities and duties of the CEO, Accountant/Office Manager and Leasing Specialist have not been defined for OSGC.

**Recommendation:**

The Corporation should ensure that all job titles have a complete and accurate job description and that each job description reflects the responsibilities and duties required.

**Finding Seventeen:** Resolutions to support approval by the Board of Directors pertaining to property transfers were not signed. In addition, resolutions indicated as "proposals" did not have evidence to support approval by the Board of Directors'.

**Condition:**

Internal Audit obtained and reviewed the resolutions adopted by OSGC's Board of Directors'. Based on this review, the following concerns/exceptions were noted:

- A resolution to support/approve the transfer of property from the Tribe to OSGC related to O.N.E. was not located.
- A resolution to support/approve the transfer of a building from the Tribe to OSGC and the subsequent sale of this building from OSGC to Fifth Floor Investments, related to the property at 2035 Larsen Road, was not located.

Internal Audit also noted the following less critical exceptions surrounding the resolutions executed by the Board of Directors'.

- Resolution #5, dated February 25, 2003, in which a "proposal" was made to increase the stipend for board members, did not include evidence to support approval by the Board of Directors'.

- Resolution dated July 23, 2003, in which a "proposal" was made for Oneida Seven Generations Corporation/Glory, LLC, to enter into a land lease for the O.N.E. Building (1555 Glory Road) with the Division of Land Management, did not include evidence to support approval by the Board of Directors'.
- Resolution #10, dated June 21, 2005, in which the Board of Directors' guaranteed a \$4.375 million mortgage for construction of the travel mart at 29/32 (Oneida Generations, LLC), was approved by the Board of Directors', but not signed or dated by the President or Secretary of OSGC.
- Resolution #12, dated February 28, 2006, in which the Board of Directors' approved the sale of OSGC's interest in Vision Oneida, LLC, was approved by the Board of Directors', but not signed or dated by the President or Secretary of OSGC.

**Recommendation:**

Resolutions approving all property transfers should be adopted by the Board of Directors to support such activity. In addition, all resolutions executed by the Board of Directors' should include wording, within the body of the resolution, to support approval. To further support this process, all adopted resolutions should be signed and dated by the President and Secretary of the Board.

**Summary**

Opportunities exist for OSGC management and staff to improve on the financial reporting provided to the Board of Directors, Business Committee and General Tribal Council. The Board, management and staff must review and fully understand the requirements associated with the Corporate Charter and By-Laws and ensure that all provisions are adhered to. If actual practice dictates changes to these documents, proper approval should be obtained and the required changes made. In addition, increased monitoring and reporting by appropriate financial management of the Tribe (Central Accounting, Business Development or Finance) may provide beneficial insights for the Tribe.



**Oneida Nation of Wisconsin  
Internal Audit Risk Assessment Analysis  
Oneida Seven Generations Corporation**

Area	Issue	Mitigating Controls	Risk Observation	Business Risk	Ease of Implementation	Recommendation
Compliance with OSGC's Corporate Charter and/or By-Laws	Compliance with Article XIII of the Corporate Charter: Requires the filing of specific information/ reports with the Business Committee and the General Tribal Council.	Quarterly reports are filed with the Business Committee and written annual and semi-annual reports filed with the General Tribal Council.	Information submitted to the Business Committee (BC) appears to exclude a Source and Use Report (i.e., cash flow statement) and material changes/ developments impacting OSGC. Information submitted to the General Tribal Council (GTC) is based on a request from the Chief of Staff and therefore excludes material changes/developments, pending legal proceedings and financial statements.  <i>Note: Decisions made by the BC or GTC based on incomplete information could result in future losses to OSGC and/or the Tribe.</i>	High	Moderate	Management should develop and implement procedures to ensure that the requirements associated with Article XIII of the Corporate Charter are reviewed and complied with for both the Business Committee and the General Tribal Council. If management determines that certain requirements are no longer applicable the Corporate Charter should be revised and approval documented to reflect this.
Complete and Accurate Reporting to the Business Committee	The return on investment information provided to the Business Committee surrounding OSGC's business ventures appears to be incomplete and inaccurate.	Note	Certain return on investment (ROI) information was absent from the report provided to the Business Committee (BC). In addition, ROI calculations prepared by Internal Audit were less favorable than those reported by OSGC.	High	Moderate	Management should develop and implement procedures to ensure that sufficient financial data is obtained on all business ventures. In addition, management should develop and implement procedures to ensure that all Business Committee requests are prepared completely and accurately. Management should continue to provide this information to the Business Committee, if deemed beneficial, and provide accompanying notes to further explain information presented.

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Compliance with OSGC's Corporate Charter and/or By-Laws	Internal Audit was unable to verify compliance with Article IX of the Corporate Charter, which requires OSGC to establish a cash reserve for debt servicing.	None	Information provided by OSGC surrounding its cash reserves lacked the following elements: inclusion of working capital, inclusion of debt associated with Babcock I, LLC and Isbell, LLC, calculation determining the cash reserve required and the amount of cash reserves currently held.	High	Moderate	Management should develop and implement procedures to ensure that Article IX of the Corporate Charter is fully understood and documentation reflects necessary calculation to determine compliance. In addition, management should provide this information to the Business Committee and/or General Tribal Council on a periodic basis, if deemed beneficial.
Complete and Accurate Reporting to the Business Committee	Information provided to the Business Committee regarding revenue generated from Tribal and Non-Tribal sources appears to be misleading.	None	OSGC's report gives the impression that revenue is directly proportional to the square footage leased, which is not accurate. <i>Note: Decisions made by the BG based on misleading/inaccurate information could result in future losses to OSGC and/or the Tribe.</i>	Moderate	Easy	Management should ensure that all information provided to the Business Committee is portrayed in a clear and accurate manner.
Complete and Accurate Reporting	Certain business ventures do not appear to support Mission Statement, which includes the generation of long-term income streams for corporate stockholders.	None	Consistent long-term income generated from Glory, LLC has not yet materialized. In addition, Isbell, LLC and North Packerland, LLC, which were both formed in late 2006, have only incurred losses to date.	High	Moderate	Management should develop/revise and implement plans and procedures to ensure that each business venture is progressing toward, and periodically measured against, the goals and objectives established. In addition, this information should be communicated to the appropriate parties on a regular basis.

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Adequate oversight	Monthly OSGC financial reports submitted to Central Accounting were not regularly reviewed.	Reports are utilized at year-end to compile "component unit" information for the Tribe's annual financial statements.	Financial results were not periodically analyzed or reviewed to identify potential trends or concerns that could be communicated to the appropriate parties.	Moderate	Moderate	Financial reports should be remitted to Central Accounting / Finance on a consistent basis. Central Accounting/Finance should ensure that financial reports received are reviewed/analyzed on a regular basis and issues/concerns followed-up on and/or communicated to appropriate parties.
Adequacy of Operational Internal Controls	Proper segregation of duties is not maintained over the cash receipt/ disbursement process. A formal reconciliation was not prepared for certain bank accounts nor an independent review performed.	Monthly reconciliations are prepared on most bank accounts.	Although no evidence was found to indicate inappropriate activity, such activity may go undetected resulting in a loss to OSGC and/or the Tribe.	High	Easy	Management should strengthen its current procedures to ensure that all bank accounts are formally reconciled monthly. If proper segregation of duties cannot be established over accounts, management should implement procedures to ensure that an independent review be performed and documented on each reconciliation prepared.
Adequacy of Operational Internal Controls	Adequate documentation to support sublease agreements between OSGC and third parties was lacking.	None	A number of rental properties were not supported by a current lease agreement. A smaller number of lease agreements indicated a larger monthly rent amount than what was being collected.	High	Moderate	Management should ensure that adequate documentation is available to support the monthly rental amount for each lease agreement and ensure that requirements associated with each lease agreement are identified and complied with. The Board of Directors should hold management accountable for enforcement of lease provisions.

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Compliance with Policies & Procedures	Procedures for the disbursement process were not being followed. Expenditures incurred by the CEO were self-approved.	None	Unauthorized and unsupported disbursements, intentional or unintentional, were processed without intervention.	High	Moderate	The Board of Directors should ensure disbursement procedures are enforced and independently reviewed and tested. The Board of Directors' should also ensure that additional work performed by the independent auditors does not impair their independence. All expenditures incurred by the CEO should be reviewed and approved by someone other than the CEO. Disbursements lacking sufficient documentation should not be approved.
Compliance with Corporate By-Laws	Compliance with Article V of the By-Laws: contracts or other instruments \$15,000 or more be approved by a resolution of the Board.	None	Board of Directors passed a resolution authorizing the CEO to approve transactions up to and including \$2,000,000. It does not appear that this resolution was brought before the Business Committee for review/approval.	High	Easy	Requirements of the Bylaws should be adhered to, or if it is determined that the requirements should no longer apply, the Corporate By-Laws should be revised and approval documented to reflect this.
Adequacy of Operational Internal Controls	Discrepancies were noted within the 2007 - 2008 annual budgets. No subsidiary record. Actual results were not periodically compared to projections.	None	Subsidiary records are critical historic perspectives on balance sheet accounts. Without a periodic comparison between budgeted results and actual results discrepancies were allowed to go unchecked.	Moderate	Moderate	Process should be developed to ensure the annual budget is prepared completely and accurately. Budgeting process should be enhanced to include information pertaining to all business ventures. Periodic comparisons between actual results and budgeted projections should be performed with results provided to the Board regularly, the Business Committee if additional funding is sought, and/or General Tribal Council, if necessary.

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Complete and Accurate Financial Reporting	A reserve was not established for an Allowance for Bad Debts and/or Uncollected Debts to reflect potential write-offs.	None	A "Notice of Default" sent to a leasee regarding unpaid rent (\$221,598.91) and the waiving of \$196,303.03 in uncollected lease payments suggests a portion of these balances may not be collectible.	Moderate	Easy	Management should establish a reserve as an Allowance for Bad Debts and/or Uncollected Debts account to reflect the potential for write-off. Management should report all at risk amounts to the Board of Directors and review this balance on a regular basis to ensure its adequacy.
Compliance with Policies & Procedures	Policy surrounding fixed assets. Subsidiary records did not balance to the general ledger.	None	Subsidiary records are maintained but do not support the general ledger balance.	Low	Moderate	A fixed asset policy should guide the handling of all fixed assets and all assets listed reviewed to ensure compliance. Subsidiary records should be formally reconciled to the general ledger at least annually.
Compliance with Corporate Charter and/or By-Laws	Compliance with Article III Section 4 of the By-Laws: board compensation is set by a Board of Director's resolution.	None	A resolution was not sighted to support approval by the Board of Directors for board member compensation.	Low	Easy	Board member compensation should be established by resolution based on board member responsibility/title, if applicable. Compliance with the Tribe's Comprehensive Policy Governing Boards, Committees and Commissions should also be addressed.
Compliance with Corporate Charter and/or By-Laws	Compliance with Article IV of the Corporate Charter and Article 1 of the Corporate By-Laws: Former CEO listed by name. Several LLC Operating Agreements list former CEO as the Managing Member.	None	The former CEO was listed as the registered agent within the Corporate Charter and By-Laws and as the Managing Member in a number of business ventures.	Low	Easy	Corporate Charter, By-Laws and LLC Operating Agreements should be updated to reflect the change in registered agent. Consideration should be given to revising these documents to reflect a job title rather than individual name.
Compliance with Policies & Procedures	Written job descriptions have not been established for each position.	The office is small with few employees.	Without a properly defined job description it may be difficult for management to hire and/or measure employee performance.	Low	Easy	All job titles should have a complete and accurate job description that reflects the responsibilities and duties required.

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Adequate Governance by Board of Directors	Resolutions to support property transfers were not found. Resolutions written as "proposals" did not have evidence to support approval.	None	Transfers of Tribally owned properties to OSGC (O.N.E. and a building related to the property located at 2035 Larsen Road) were not acknowledged. Neither was the subsequent sale of the Larsen Rd building to Fifth Floor Investments. Appears to be lack of governance.	High	Easy	Resolutions approving property transfers should be adopted by the Board of Directors. All resolutions executed by the Board of Directors' should include wording to support approval. All adopted resolutions should be signed and dated by the President and Secretary of the Board, and kept on file.

**Risk Terms**

Mitigating Controls – controls that help reduce the overall risk

Risk Observation - description of risk associated with finding

Business Risk – overall business risk level measured in terms of likelihood and consequence. (Low, Moderate, High)

Ease of Implementation - This represents the degree of difficulty in implementing the recommendation. (Easy, Moderate, Difficult)

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