

DECEMBER 20, 2006

cc: Tribal Council

4 pages ①

MR. WALTER HOLLIFIELD
CHIEF FINANCIAL OFFICER
SPIRIT LAKE TRIBE
P.O. BOX 359
FORT TOTTEN, NORTH DAKOTA 58335

DEAR MR. HOLLIFIELD:

THE MAIN PURPOSE OF THIS LETTER IS TO INFORM YOU AND THE AUDITORS THAT WE WILL NOT BE ABLE TO MEET THE DECEMBER 31, 2006 DEADLINE THAT WAS AGREED UPON AT THE TRIBAL COUNCIL MEETING HELD THIS LAST OCTOBER IN THE TRIBAL COUNCIL CHAMBERS. THE FULL COUNCIL WAS PRESENT AND DULY CONVENED. MR. MARK MILLER FROM BRADY MARTZ, CERTIFIED PUBLIC ACCOUNTANTS, WAS ALSO PRESENT. I EXPLAINED WITH GREAT DETAIL WHAT WE HAD ACCOMPLISHED TO DATE AND WHAT REMAINED TO BE DONE FOR THE FY2006 PRE-AUDIT. I PROMISED WE WOULD BUCKLE DOWN AND WORK HARD DAYS, NIGHTS, AND WEEKENDS TO GET IT DONE.

BASED ON THE CONCERNS EXPRESSED BY THE TREASURER AS TO THE COST OF THE PRE-AUDIT SERVICES, WE STOPPED ALL WORKS AS OF LAST THURSDAY. WE LEFT OUR EQUIPMENT AND FURNITURE IN THE TRIBAL FINANCE OFFICE WITH THE HOPE THAT WE WOULD BE ABLE TO REACH AN UNDERSTANDING. **PRE-AUDIT WORK IS VERY TEDIOUS, VERY TIME CONSUMING, AND VERY LABOR INTENSIVE.**

I WOULD LIKE TO ENCOURAGE YOU TO LOOK AT THE COSTS AND ALSO THE BENEFITS. I STILL MAINTAIN THAT THE BENEFITS OF GETTING A NICE CLEAN AUDIT ON TIME (ACTUALLY AHEAD OF TIME) ARE WELL WORTH THE COST OF THE PRE-AUDIT. THE NATIONAL BUSINESS CENTER IS WELL AWARE OF THIS FACT. THEY HAD NO PROBLEM ALLOCATING IN THE IDC BUDGET ENOUGH MONEY TO TAKE CARE OF YOUR PRE-AUDIT WORK FOR FY2005, FY2006, AND FY2007.

AS YOU ARE WELL AWARE, OUR CONTRACT FOR PRE-AUDIT SERVICES IS BASED ON THE NEW RULES, NEW REGULATIONS, AND NEW FEDERAL LAW (SARBANES-OXLY ACT SIGNED INTO LAW IN 2002 BY PRESIDENT BUSH) THAT REGULATE "AUDITORS' INDEPENDENCE".

AUDITORS ARE NO LONGER ALLOWED TO AUDIT THEIR OWN WORK. AUDITORS ARE NO LONGER ALLOWED TO RATIONALIZE INDEPENDENCE. AUDITORS WILL NO LONGER BE ABLE TO USE THE MANAGEMENT LETTER TO MAKE CLIENTS LIE AS TO: WHO FOR REALS PREPARED THE GASB-34 GOVERNMENT-WIDE FINANCIAL STATEMENTS ON THE FULL-ACCURAL BASIS OF ACCOUNTING. WHO FOR REALS PREPARED THE FIXED ASSET DEPRECIATION SCHEDULES REQUIRED BY GASB-34. WHO FOR REALS PREPARED THE MD & A OR MANAGEMENT DISCUSSION AND ANALYSIS. WHO FOR REALS PREPARED THE RECONCILIATION SCHEDULES TO RECONCILE THE DIFFERENCES BETWEEN THE GASB-34

FULL-ACCRUAL FINANCIAL STATEMENTS AND THE MODIFIED-ACCRUAL BASIS COMBINING AND INDIVIDUAL FUND FINANCIAL STATEMENTS, WHO FOR REALS PREPARED THE NOTES TO THE FINANCIAL STATEMENTS, WHO FOR REALS PREPARED THE SEFA OR SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, WHO FOR REALS PREPARED THE MODIFIED- ACCRUAL BASIS COMBINING AND INDIVIDUAL FUND BALANCE SHEETS AND STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE, ETC. **SOONER OR LATER, IT WILL BE TESTED BEFORE THE STATE BOARD OF ACCOUNTANCY, IN STATE COURT, AND IN FEDERAL COURT. THE LAW STATES VERY CLEARLY THAT AUDITORS MUST BE INDEPENDENT IN FACT AND IN APPEARANCE.** THIS INFORMATION WAS ALSO CONVEYED TO YOU BY MR. MILLER FROM BRADY MARTZ, CERTIFIED PUBLIC ACCOUNTANTS AT THE TRIBAL COUNCIL MEETING AND AT VARIOUS OTHER DISCUSSIONS WITH THE TRIBAL COUNCIL.

AS I EXPLAINED TO YOU AT THE THREE DAY WORKSHOP WE HELD AT THE SPIRIT LAKE CASINO DECEMBER 11, 12, AND 13, OUR WORK IS 90% FINISHED:

1. THE GASB-34 GOVERNMENT-WIDE FINANCIAL STATEMENTS ON THE MODIFIED ACCRUAL BASIS OF ACCOUNTING ARE ALMOST FINISHED.
2. THE MD & A OR MANAGEMENT DISCUSSION AND ANALYSIS IS PARTIALLY COMPLETED. IT WILL BE COMPLETED AFTER THE FY2006 A-133 SINGLE AUDIT REPORT DRAFT IS ISSUED.
3. WE HAVE MOST OF THE INFORMATION READY FOR DRAFTING THE NOTES TO THE FINANCIAL STATEMENTS. OF KEY IMPORTANCE IS THE INFORMATION RELATED TO LONG TERM DEBT AND THE LONG TERM DEBT AMORTIZATION SCHEDULES. AS I MENTIONED ON SEVERAL OCCASIONS, LIN FROM MY OFFICE IS A CPA AND ALSO HAS A MASTERS DEGREE IN FINANCE. GASB-34 AND ALL RELATED INFORMATION IN THE NOTES TO THE FINANCIAL STATEMENTS ARE PRETTY MUCH FINANCE-ORIENTED.
4. THE FIXED ASSET SCHEDULES AND RELATED DEPRECIATION SCHEDULES REQUIRED BY GASB-34 ARE FINISHED.
5. THE RECONCILIATION SCHEDULES TO RECONCILE THE DIFFERENCES BETWEEN THE GASB-34 FULL-ACCRUAL FINANCIAL STATEMENTS AND THE MODIFIED-ACCRUAL BASIS COMBINING AND INDIVIDUAL FUND FINANCIAL STATEMENTS ARE PARTIALLY SET UP.
6. THE SEFA OR SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS IS MATERIALLY COMPLETED. IT NEEDS A FINAL REVIEW.
7. THE MODIFIED- ACCRUAL BASIS COMBINING AND INDIVIDUAL FUND BALANCE SHEETS AND STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE, ARE MATERIALLY FINISHED.

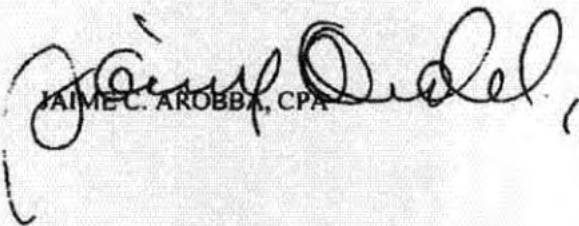
8. AS I MENTIONED TO YOU AT THE WORKSHOP WE HELD AT THE SPIRIT LAKE CASINO FOR THE TRIBAL COUNCIL, THE BALANCE SHEET ACCOUNTS FOR ALL 252 FUNDS ARE FULL OF GARBAGE THAT HAS BEEN ACCUMULATING FOR YEARS AND YEARS. ONE ITEM MIGHT NOT BE MATERIAL. HOWEVER, IN THE AGGREGATE, IT IS MATERIAL.
9. ACCOUNTS RECEIVABLE AND LOANS RECEIVABLE WITH VERY MATERIAL AMOUNTS AND BALANCES ARE NOT PROPERLY REFLECTED IN THE GENERAL LEDGER AND THEREFORE ARE NOT REFLECTED PROPERLY IN THE AUDIT REPORT EITHER, AS NOTED BY THE AUDITORS.
10. ALL OF THE LOAN PROGRAMS ADMINISTERED BY THE TRIBE ARE IMPROPERLY ACCOUNTED FOR. ABUSE IS EVIDENT AND POTENTIAL FRAUD IS ALSO EVIDENT. I EXPLAINED TO THE TRIBAL COUNCIL LAST WEEK ABOUT ISSUES RELATED TO "A CONSPIRACY TO DEFRAUD" AND HOW IT IS HANDLED BY THE LEGAL SYSTEM.
11. TRAVEL ADVANCES SHOULD BE RECORDED AS A RECEIVABLE IN THE BALANCE SHEET AND LIQUIDATED WHEN RECEIPTS AND OTHER TRAVEL DOCUMENTATION ARE TURNED IN. THUS, TRAVEL ADVANCES RECEIVABLE ARE NOT PROPERLY REFLECTED AS AN ASSET IN THE BALANCE SHEET AND ARE NOT PROPERLY REFLECTED IN THE AUDIT REPORT.
12. ACCOUNTS PAYABLE ARE NOT REFLECTED IN THE FY2005 AUDIT REPORT. ACCOUNTS PAYABLE FOR FY2006 HAVE NOT BEEN ACCRUED YET IN THE GENERAL LEDGER. ACCOUNTS PAYABLE FOR ONE FUND MAY NOT BE MATERIAL, HOWEVER, THEY ARE MATERIAL IN THE AGGREGATE. ALSO, ALL ACCOUNTS PAYABLE MUST BE ACCRUED BECAUSE YOU CANNOT USE NEXT YEAR'S MONEY TO PAY FOR PRIOR YEAR BILLS. UNCLE SAM IS VERY STRICT ON THIS ISSUE. CONGRESS DOES NOT APPROPRIATE MONEY TO PAY OLD BILLS OR PRIOR YEAR LEFT OVER EXPENSES.
13. PAYROLL RELATED LIABILITIES NEED TO BE CLEANED UP AND ADJUSTED YET.
14. LONG TERM DEBT NEEDS TO BE PROPERLY ADJUSTED YET IN THE GENERAL LEDGER.
15. ACCRUED INTEREST PAYABLE STILL NEEDS TO BE RECORDED IN THE GENERAL LEDGER.
16. DUE FROM GRANTOR AND DUE TO GRANTOR ACCOUNT BALANCES NEED TO BE ADJUSTED FOR ALL FUNDS. AS YOU MAY RECALL, I WANTED TO DO IT WITH YOU LAST WEEK SO THAT YOU WOULD BE MORE AWARE AND MORE INFORMED AS TO HOW CASH-FLOW IS BEING HANDLED AND HOW "DRAWDOWNS" ARE AFFECTING THE SPIRIT LAKE TRIBE AND ITS CASH-FLOW.

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17. AS I MENTIONED TO THE TRIBAL COUNCIL ON MANY OCCASIONS, I WOULD LIKE TO ENCOURAGE THE TRIBAL COUNCIL TO SET UP AN EMERGENCY ASSISTANCE PROGRAM WITH ITS OWN DIRECTOR AND ITS OWN BUDGET, DUE TO ETHICAL IMPLICATIONS WHICH IN TURN AFFECT AND PERMEATE THE WHOLE SYSTEM OF INTERNAL CONTROLS.
18. THERE ARE MANY OTHER ACCOUNTING ISSUES THAT NEED TO BE ADDRESSED, MANY OF WHICH HAVE BEEN ADDRESSED IN THE MANAGEMENT LETTER PROVIDED BY BRADY MARTZ, CERTIFIED PUBLIC ACCOUNTANTS IN CONJUNCTION WITH THE FY2005 A-133 SINGLE AUDIT. ISSUED IN THE MANAGEMENT LETTER, WHEN NOT ADDRESSED IN A TIMELY MANNER, BECOME AUDIT FINDINGS.

SHOULD YOU HAVE QUESTIONS OR NEED ADDITIONAL INFORMATION, PLEASE FEEL FREE TO CALL US AT 605-867-6262 (OFFICE) OR 605-441-3325 (CELL).

YOURS TRULY,


JAIME C. ARROBA, CPA

MAZASKA WANICHA IBLAWA
KAJTIN MANA KAJTIN KIKILLANTAJ YUPANI
PILAMAYA - THANK YOU - GRACIAS - MOLTE GRAZIE - SUMAJ PACHA - PIDAMAYA - TIANK YOU - GRACIAS - MOLTE GRAZIE
SUMAJ PACHA - WASHTE VELO