

SUMMARY

The Office of the Auditor General has conducted a performance audit of the Credit Services Department (Credit Services) to provide an evaluation of Credit Services lending activities and performance in administering the Navajo Nation's loan program.

FINDING I: Credit Services Needs to Comply with its Lending Policies and Guidelines

Credit Services is not consistently implementing its established lending policies in administering the loan program. The inconsistent implementation of policies led to loans being given to applicants who did not meet established criteria. Also, procedures in approving loan accounts were not followed. The credit manager performing the duties of a loan officer gives the manager total control over a majority of the loan process, which poses the risk of lack of independent review in the loan application assessment. In addition, collection of past due accounts is poorly managed. The poor management of loan accounts resulted in approximately \$5.5 million in delinquent accounts. Legal actions to collect from borrowers who defaulted on their loans were not pursued in a timely manner. Records show only seven percent of the delinquent borrowers were referred to a legal counsel to pursue collections through legal actions.

FINDING II: Management Needs to Improve Performance in Administering the Loan Program

Credit Services is inefficient in assessing loan applications. It takes the department a maximum of 247 calendar days to qualify home loan applications and 22 calendar days to qualify personal loan applications. Private lending agencies take as little as 24 hours to pre-qualify home loan applicants and within the same business day to qualify personal loan applicants. In addition, the number of loans serviced by Credit Services decreased over the past five years, an overall total decrease of 13 in the number of home loans serviced and 18 in the number of personal loans serviced. However, quarterly reports submitted to the Controller do not provide information explaining the reason for the decrease. Performance data such as comparison of expected against actual loan applications received and booked, loan applications denied and reasons for denial were not included in the quarterly reports. These performance data are information necessary to assess Credit Services effectiveness in addressing the needs of the Navajo people to obtain loans.

FINDING III: Credit Services Needs to Follow Standard Practices Observed by Lending Institutions

Credit Services is not following the standard lending practices in the accounting and reporting of its loan activities. Amounts disbursed by Credit Services to protect its rights in the properties secured by the loans were recognized as operating costs, rather than as additional debt of the borrowers. In addition, reports that provide information about Credit Services lending activities were not prepared. Further, Credit Services does not require the borrower to establish an escrow account of property secured by the loan. Finally, differences in terminology used by Credit Services contribute to misunderstandings.