

# **White Cone Chapter Corrective Action Plan**

## **Supplemental Follow Up**

### **Background**

Per directive issued by the Budget and Finance Committee (BFC), the Office of the Auditor General (OAG) conducted a supplemental follow-up review on the status of the White Cone Chapter (Chapter) implementation of its corrective action plan (CAP). The CAP was approved on February 06, 2001 by BFC per resolution BFF-18-01 to resolve the findings in OAG Audit Report 00-07. Title 12 Navajo Nation Code section 8 requires White Cone Chapter to implement the CAP. Section 7 further directs OAG to conduct a follow-up review twelve months after BFC's approval of the CAP. White Cone Chapter's failure to implement the CAP will result in the Chapter and its officials to be sanctioned. On September 27, 2002, OAG issued the results of its twelve-month follow-up review and recommended that sanctions be imposed on the White Cone Chapter and its officials for failure to implement the CAP to resolve the findings in report 00-07. On December 03, 2003, per resolution BFD-181-02, BFC accepted OAG's follow-up report and recommended sanctions, but delayed executing the sanctions against the Chapter and its officials for three months. BFC directed the Chapter to comply with its CAP within three months. If the Chapter fails to comply with the BFC directive, the BFC authorizes the Navajo Nation Controller to impose sanctions against the Chapter pursuant to Title 12 Navajo Nation Code sections 9(B) and 9(C).

### **Objective, Scope and Methodology**

OAG conducted the supplemental review to determine whether the Chapter complied with the BFC directive to fully implement its CAP. The Chapter was required to resolve thirteen findings presented in report 00-07, by implementing its CAP. However, our twelve-month follow-up found that only three findings were resolved because the Chapter did not implement all of the corrective actions outlined in its CAP. This left ten unresolved findings.

To meet our objective, we reviewed Chapter activities for the three month period ended February 28, 2003. Our review consisted of inquiries of Chapter staff and review of Chapter documents. We examined cash receipts documentation to determine whether cash receipts are adequately recorded, reconciled and deposited intact. In reviewing the Chapter's disbursement process, we selected a sample of expenditures by using a non statistical, judgmental method. The sampled expenditures were reviewed to verify adequacy of supporting documentation and compliance to applicable laws, policies and fund guidelines. In addition, we reviewed the Chapter's progress to fully implement its five management system.

### **Review Results**

Our supplemental follow-up review found the Chapter has resolved seven additional findings by:

1. Reconciling cash receipts before deposit.

2. Depositing cash receipts intact.
3. Issuing checks for all disbursements (with the exception of petty cash transactions).
4. Ensuring expenditures have adequate supporting documentation.
5. Presenting monthly reports of Chapter finances to the community.
6. Maintaining a petty cash fund to pay for small, incidental expenses.
7. Establishing policies and procedures for its vehicle and heavy equipment use.

Subsequently, three findings remain unresolved. The following are the three findings that the Chapter still needs to resolve.

1. Not establishing policies and procedures for differentiating between employees and independent contractors.
2. Not fully implementing its five management system policies and procedures.
3. Not generating basic financial statements generally required for governmental entities.

Overall, White Cone Chapter has made improvements to safeguard and account for the Chapter's assets and resources. However, the three unresolved findings expose the Chapter to financial risks. For instance, not fully implementing its five management system resulted in the Chapter misclassifying its Emergency Fund revenue as General Activity Fund revenue. This shows non-compliance with guidelines, policies, and procedures on restricted emergency funds.

For the three months reviewed, we found that the Chapter purchased hay costing \$4,095 from its \$16,700 Emergency Fund appropriated by the Navajo Nation Council in July 2002 to address the drought conditions. The Chapter resold the hay to the community. However, proceeds from the hay sales were not accounted for under the restricted Emergency Fund, but were classified under the unrestricted General Activity Fund, and are expended for non-emergency activities. Generally, revenues derived from restricted funds are not to be used for other purposes than for which the fund was originally allocated. Therefore, the Chapter's practice of misclassifying Emergency Fund proceeds generated from the sales of hay under the General Activity Fund, and then subsequently using the hay sales proceeds for non-emergency expenditures, is contrary to the Emergency Fund's purpose.

## **Conclusion**

White Cone Chapter has demonstrated a good faith effort to implement its CAP by resolving ten of thirteen findings presented in report 00-07. However, the Chapter still needs to resolve three findings. Therefore, OAG recommends that the Chapter be allowed an additional 60 days to resolve the three outstanding findings.

OAG believes 60 days is a reasonable amount of time to resolve these findings. OAG also recommends Ft. Defiance Agency Local Governance Support Center to closely monitor the Chapter's progress in implementing corrective actions to resolve the findings. In addition, OAG recommends the Chapter to immediately cease classifying Emergency Fund hay sales proceeds as General Activity Fund revenue and replenish its Emergency Fund the amounts that were misclassified as general funds. Further, BFC should require the Chapter to report the Chapter's implementation of OAG's recommendations 60 days after issuance of this memorandum. At that time, if the Chapter cannot demonstrate that the three findings have been resolved, BFC should sanction the Chapter without any further delay.