

SUMMARY

The Office of the Auditor General has conducted a special review of the Business and Industrial Development Fund (BIDF) administered by the Division of Economic Development. The purpose of the audit is to determine whether the Division of Economic Development (DED) maintains sound loan administration and collection procedures, and effective investment practices.

FINDING I: Poor Controls Have Weakened BIDF Investments

There was no apparent return on the \$5 million BIDF equity investments. In addition, \$1.2 million BIDF equity investments have been deemed impaired. Furthermore, DED could not provide information on the internal rate of return of \$12 million BIDF monies invested in commercial development projects. All indications show DED did not perform an analysis prior to investing BIDF. Also, DED is misstating its financial records. DED is not reconciling its records to the Navajo Nation accounting system to reflect accurate financial information on BIDF investments. Finally, investment files are poorly organized. DED's accounting of BIDF investments is hampered with poor controls and inefficiencies.

FINDING II: Non-compliance with Established Lending Policies and Procedures

DED approved BIDF loans despite the lack of pertinent supporting documents. In addition, the collection of past due accounts is poorly managed. This contributed to the approximately 60% delinquency rate of BIDF loans. Of the 130 open BIDF loan accounts with outstanding balance of \$14.3 million, 76 loan accounts with outstanding balance of \$8.5 million are delinquent for more than 90 days. Of the 76 delinquent loans, 23 loans with outstanding balance of \$1.4 million have been in default for more than 5 years and 24 loans with outstanding balance of \$6.1 million have been in default for more than 10 years. Moreover, the Commercial loans account for 76% (\$6.5 million) of the 90 days past due. Additionally, despite the high delinquency rate on Commercial loans, no collection efforts were made. DED did not pursue legal action in the collection of delinquent accounts.

FINDING III: BIDF Loans are Poorly Administered

DED did not ensure adequate segregation of duties in the accounting of BIDF loan payments. The collection officer was given sole authority to collect, post, and reconcile the DED loan ledger system. We also found DED is maintaining inaccurate information on the loan ledger system. As a result, we could not rely on DED's records. There is a risk manipulation of account information is occurring without detection. In addition, DED is not adequately safeguarding loan files. In the absence of the loan files, DED will have difficulty collecting in the event the borrowers defaulted on their loans. Furthermore, DED misrepresented performance data for completed loan packages. Consequently, DED performance reports could not be relied upon to provide accurate information on its accomplishments.

In addition to the three findings summarized above, the audit report contains recommendations for improving the management of the BIDF.