

## SUMMARY

The Navajo Nation Office of the Auditor General has conducted a special review of the \$1.25 million loan expended by the Dine Poultry Products, Inc. (DPPI); a loan that was collateralized with the Navajo Dam Escrow Account. The special review was requested by the Budget and Finance Committee of the Navajo Nation Council and conducted pursuant to 12 N.N.C. §2. The review provides information on how DPPI expended the \$1.25 million loan.

DPPI was formally established as a domestic for-profit corporation with the State of New Mexico in 2004, and its main purpose was to develop an egg farm plant to produce millions of eggs per year and generate revenues through the sale of the eggs. The egg farm project was an economic development opportunity for the Nageezi and Huerfano Chapters. This joint initiative was evident with chapter representatives on the DPPI board of directors and as shareholders.

DPPI needed \$12.2 million in capital to cover the construction and start-up operations of the egg farm plant. Accordingly, DPPI worked with a key consultant to obtain financing for the project and was able to secure a \$3 million loan from Native American Bank but the loan had to be collateralized with the Navajo Dam Escrow Account. The Navajo Nation Budget and Finance Committee approved the use of funds from the escrow account for the DPPI egg farm project in December 2005. However, DPPI defaulted on the loan after expending approximately \$1.25 million of the loan and as such, Native American Bank called for the collateral from the escrow account in December 2008. Accordingly, the Navajo Nation repaid the Native American Bank loan to DPPI with its Navajo Dam Escrow Account.

### **FINDING: DPPI Expenses Incurred with \$1.25 Million Loan Collateralized by the Navajo Dam Escrow Account Are Questionable**

Based on our compilation of bank records, we determined how DPPI expended these funds. We noted that about 50% was expended for professional services by consultants including a key consultant that was paid \$565,000. The DPPI board also paid itself over \$341,000 as reimbursements, wages and stipends. The reimbursements included pre-incorporation costs supposedly incurred by the DPPI board before it received the loan. Since DPPI did not provide supporting documentation, the propriety of the expenses could not be substantiated. Therefore, the expenses incurred by DPPI with the \$1.25 million loan collateralized by the Navajo Dam Escrow Account were deemed questionable.