

OFFICE OF THE AUDITOR GENERAL

The Navajo Nation

**A 4th Follow-Up Review
of the
Capital Improvement Office
Corrective Action Plan Implementation**

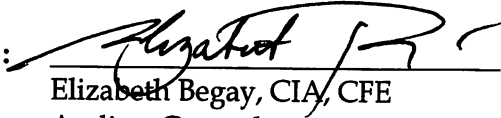
**Report No. 14-14
June 2014**

Performed by:
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M-E-M-O-R-A-N-D-U-M

TO : Casey Begay, Department Manager
CAPITAL IMPROVEMENT OFFICE

FROM : 
Elizabeth Begay, CIA, CFE
Auditor General
OFFICE OF THE AUDITOR GENERAL

DATE : June 30, 2014

SUBJECT : 4th Follow-up Review of the Capital Improvement Office Corrective Action Plan Implementation

The Office of the Auditor General herewith transmits Audit Report No. 14-14, a 4th Follow-up review of the Capital Improvement Office Corrective Action Plan (CAP) Implementation. Our office conducted this review to determine whether the Capital Improvement Office implemented its CAP to address prior audit findings.

Review Results

Finding	Status of CAP
The Capital Improvement Office needs to strengthen project selections and appropriation procedures.	Not Implemented
The Capital Improvement Office needs to ensure that matching funds are available for projects as scheduled.	Not Implemented
Large carryover balance demonstrates ineffective use of capital improvement funds.	Not Implemented

If you have any questions about this report, please contact our office at (928) 871-6303.

xc: Leonard Chee, Division Director
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INTRODUCTION AND BACKGROUND

The Navajo Nation Council approved a Condition of Appropriation for the Capital Improvement Office (CIO) on September 10, 2013 per resolution number CS-47-13 to request a corrective action plan (CAP) follow-up review. CIO affirmed the corrective actions were implemented, therefore the Office of the Auditor General (OAG) conducted a 4th follow-up review of the CAP implementation status.

The corrective action plan was approved by the Budget and Finance Committee on September 04, 2001 per resolution number BFS-97-01. In accordance with 12 N.N.C. Section 7(G), OAG conducted a twelve month follow-up review and presented the results of this review on June 23, 2003. The follow-up review concluded that CIO did not fully implement its CAP. Consequently, the audit findings remain unresolved. In the absence of significant improvement, OAG made a recommendation to sanction CIO in accordance with 12 N.N.C. Sections 9(B) and 9(C). Accordingly, the Budget and Finance Committee approved the Auditor General's recommendation to sanction CIO on September 09, 2003 per resolution number BFS-141-03.

In 2005, CIO requested a supplemental follow up review and OAG issued a report on January 19, 2005. Further, in 2008, CIO requested another supplemental follow up review and OAG issued a report on August 20, 2008. Both supplemental reviews found CIO did not make sufficient improvements in fully implementing its corrective action plan. Consequently, the sanction imposed against the program and its manager was not lifted.

The sanction against the CIO involved the following:

1. *10% withholding of General Funds appropriated to the program*
2. *20% withholding of the CIO manager's annual salary*

The Office of the Controller will withhold these funds until CIO demonstrates to OAG that it has fully implemented its CAP pursuant to Title 12 N.N.C. §9.

Objective, Scope and Methodology

The objective of this 4th follow-up review was to determine whether CIO implemented its CAP. The scope of this review are the activities within the Capital Improvement Plan (CIP) process that resulted in the approval of a CIP in April 2014. In meeting our objective, we interviewed program staff, examined available documentation and tested a sample of proposals for required documentation and compliance with established policies and procedures. The sample was selected using non-statistical, judgmental sampling methods.

The Auditor General and staff express appreciation to the Capital Improvement Office for their cooperation and assistance throughout this review.

Review Results

CIO did not implement its CAP. The 4th follow-up review revealed the following:

AUDIT FINDING:

The Capital Improvement Office needs to strengthen project selections and appropriation procedures.

CORRECTIVE ACTIONS:

- Provide CIO policies and procedures to Chapters/Programs for documenting need assessment. Track and confirm receipt of policies and notices to recipients.
- Send advance notice of annual CIO proposal submission deadline of March 1st of each year.
- Use the check list to ensure that proposals have complete documentation. Return incomplete proposals to applicants and deadline to resubmit.
- Send notice to multi-disciplinary committee and convene committee by first Monday in April of each year.
- Conduct orientation with multi-disciplinary committee utilizing Resources and Development Committee (RDC) approved policies and procedures.
- Conduct capital improvement plan proposal review/ranking using the established evaluation criteria approved by RDC by April of each year.
- Summarize results of capital improvement plan proposal evaluation by April of each year.
- Develop the Navajo Nation capital improvement plan and capital budget with a list of scores from highest to lowest ranking.
- Present the Navajo Nation capital improvement plan and capital budget to RDC.

REVIEW RESULTS:

CIO did not implement the corrective actions. CIO presented a \$296 million Capital Improvement Plan (CIP) to the Navajo Nation Council (NNC) to fund 132 projects which was approved April 22, 2014 via resolution number CAP-18-14. The CIP was approved by the Navajo Nation President on April 30, 2014.

CIO did not implement the corrective actions to ensure projects were selected in accordance with the project selection process. Our review found the following:

- CIO did not provide policies and procedures to Chapters/Programs as well as advance notices for proposal deadline.
- CIO did not consistently use a check list to ensure proposals have complete documentation. Rather, CIO accepted all proposals with a minimum requirement of cover sheet, proposal, and resolution. However, 20 projects included on the CIP for approximately \$85 million did not have proposals and were not reviewed by the multi-disciplinary ad-hoc committee. These projects represent 29% of the \$296 million CIP. The Department Manager stated these projects were included directly by the NNC during the Spring Session approving the CIP.
- Over a five day period, seven multi-disciplinary ad-hoc committee members met, reviewed and ranked at least 112 proposals. We found that one out of seven members did not attend the first day when the orientation is so crucial in how to review and rank the proposals. An interview with one member revealed that the first day's orientation was confusing. On the second day, when the Department Manager did another orientation, the review and ranking of

proposals became clearer. Over the course of five days, only one member was in attendance every day. The other six members were absent at least a third of the time.

- At the end of the ranking period, a summary report was not prepared by the multi-disciplinary ad-hoc committee for the proposals they rated, therefore it is unknown how many proposals the committee actually ranked.
- Although a CIP was approved by the NNC and President, there was no capital budget that was included with the plan. Per CIO, a capital budget will be presented in the 2015 appropriation process based on the CIP. This capital budget will include options on how to fund the CIP.

A CIP was approved for the Navajo Nation, however CIO did not comply with the established CIP process in developing the plan. Despite the NNC's direct action to approve 20 projects contrary to the CIP process, CIO was still responsible for carrying out the CIP process to ensure informed decisions are made about capital projects and resource allocation. Therefore, there still remains the risk the CIP includes ill-planned projects due to lack of pertinent documentation and unclear ranking of proposals. Consequently, such projects will likely encounter funding shortfalls and project delays.

AUDIT FINDING:

CIO Needs to ensure that Matching Funds are Available for Projects as Scheduled.

CORRECTIVE ACTIONS:

- Identify matching funds pledged or cited by applicants in their proposals and include them in the preliminary check off list.
- Request for documented evidence of matching funds pledged or cited by applicants.
- Confirm the matching funds pledged or committed by funding agency.

REVIEW RESULTS:

CIO did not implement the corrective actions. CIO did not verify match funds are available as represented by project sponsors. Our review of 11 proposals that cited matching funds found five proposals did not have evidence of matching. Nevertheless, the proposals were awarded higher points for matching fund but may not be reliable due to lack of documentation. Overall, CIO did not ensure that matching funds had adequate verification documents prior to being ranked. The CIO continues to put the Navajo Nation at risk of approving capital projects with matching funds that may not materialize and end up with funding shortfalls.

AUDIT FINDING:

Large Carryover Balance Demonstrates Ineffective Use of Capital Improvement Funds.

CORRECTIVE ACTIONS:

- Develop a monthly expenditure report identifying percentage of expenditures against budget.
- Based on the expenditure and performance reports, plan and prioritize existing projects for completion as follows:
 1. Construction completed projects not closed out.
 2. Projects not fully funded.
 3. Projects not ready for construction.
 4. Set up files for each project

5. Develop a standardized and automated project tracking system.
6. Provide notice to project sponsors, vendors, contractors and other appropriate parties of construction completed projects that accounts have been outstanding for more than two years.
7. Reorganize CIO's operating procedures for efficient management of capital projects.

REVIEW RESULTS:

CIO did not implement the corrective actions. The unexpended balance as of May 31, 2014 is \$13.1 million. The CIO provided two lists of projects funded from the following: the Navajo Nation General Fund and the State of New Mexico. The financial status for projects on these lists reconcile to the Navajo Nation Financial Management Information System.

However, CIO project reports do not adequately disclose the project completion status. Project owners, such as Design and Engineering, have completion status reports available. However, CIO does not provide this information on its project reports. CIO currently monitors 184 projects but without completion status on its reports, CIO cannot readily disclose the status of projects and effectively track the capital projects.

CONCLUSION

Although the Navajo Nation approved a Capital Improvement Plan of approximately \$300 million for 132 projects, the plan is potentially comprised of ill-planned projects and poorly ranked projects because CIO and Navajo Nation Council did not consistently follow the CIP process defined within the Navajo Nation Appropriations Act. This plan poses the following risks:

- Funding shortfalls
- Project delays
- Unused capital improvement funds
- Priorities of the Navajo Nation may go unmet

Overall, the corrective action plan approved by the Budget and Finance Committee in September 2001 has not been implemented. Consequently the sanctions currently being imposed against the program and its manager cannot be lifted. In accordance with 12 N.N.C. § 9(B) and (C), program funds and manager salary will continue to be withheld until such time that the CIO has demonstrated that the corrective action plan has been implemented.