



OFFICE OF THE AUDITOR GENERAL

The Navajo Nation

**A Follow-Up Review
of the
Fort Defiance Chapter
Corrective Action Plan Implementation**

**Report No. 14-13
June 2014**

Performed by:
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June 20, 2014

Zondra Bitsuie, President
FT. DEFIANCE CHAPTER
P.O. Box 1366
Ft. Defiance, AZ 86504

Dear Ms. Bitsuie:

The Office of the Auditor General herewith transmits Audit Report No. 14-13, a Follow-up Review of the Ft. Defiance Chapter Corrective Action Plan Implementation. The Office of the Auditor General conducted the follow-up review with the following objectives:

- To determine the status of the Fort Defiance Chapter corrective action plan (CAP).
- To identify the barrier(s), if any, that hindered implementation efforts.

Review Results

Finding	Status of CAP
Chapter lacks adequate internal controls over accounting of revenues and expenditures	Implementation in progress
Chapter is not in compliance with established policies and procedures in expending Chapter funds	Implemented
Chapter accounting system needs improvement.	Implemented

The Fort Defiance Chapter has implemented the majority of corrective actions outlined in the CAP and as such, has demonstrated improvements to ensure accountability and safeguarding of Chapter assets and resources. Overall, corrective actions to strengthen internal controls and comply with rules, policies, procedures and funding stipulations have been implemented. Therefore, the Office of the Auditor General does not recommend sanctions be imposed on the Fort Defiance Chapter and Officials in accordance with 12 N.N.C., sections 9(B) and 9(C).

Sincerely,


Elizabeth Begay / CIA, CFE
Auditor General

xc: Lorraine Nelson, Vice-President
Brenda Wauneka, Secretary/Treasurer
Tony Watchman, Community Service Coordinator
Roscoe Smith, Council Delegate
FT. DEFIANCE CHAPTER
Leonard Chee, Division Director
DIVISION OF COMMUNITY DEVELOPMENT
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INTRODUCTION AND BACKGROUND

The Navajo Nation Office of the Auditor General conducted a follow-up review on the Fort Defiance Chapter Corrective Action Plan (CAP) implementation in accordance with 12 Navajo Nation Code (N.N.C.) § 7. The follow up review was to determine whether the Fort Defiance Chapter implemented its CAP to resolve the findings presented in audit report no. 10-20.

In 2010, the Office of the Auditor General conducted a special review of the Fort Defiance Chapter and issued report no. 10-20. This audit report and the corrective action plan developed by the Fort Defiance Chapter were approved by the Budget and Finance Committee on December 21, 2010 per resolution no. BFD-48-10. With Budget and Finance Committee approval, the Fort Defiance Chapter (Chapter) has the duty to implement the corrective action plan.

Objectives, Scope and Methodology

In accordance with 12 N.N.C. § 7(G), the following objectives were established for the follow-up review:

- To determine the status of the Chapter corrective action plan.
- To identify the barrier(s), if any, that hindered implementation efforts.

To meet the objectives, the auditors reviewed the Chapter records for the six month period of September 2013 to February 2014. In addition, the auditors conducted inquiries with Chapter staff, observed Chapter operations and performed audit test work of a sample of financial transactions.

The Auditor General and staff express appreciation to Fort Defiance Chapter for their cooperation and assistance throughout this review.

REVIEW RESULTS

FINDING I

Chapter Lacks Adequate Internal Controls over Accounting of Revenues and Expenditures

Issue 1: Lack of controls over accounting of revenues led to undeposited cash receipts.

The initial audit found that the Chapter assesses a users' charge for providing services such as facility rental, equipment rental, and other miscellaneous services. A comparison of the recorded cash receipts to the bank account deposits found cash receipts were not all deposited in the Chapter bank account.

Corrective Actions:

1. Record all cash received on a two copy pre-numbered form and enter into the accounting system on a daily basis.
2. Reconcile the deposit against the cash receipts journal and cash receipt tickets.
3. Deposit cash receipts into the bank account on a weekly basis.
4. Perform reconciliations of cash receipts on a weekly basis.

Follow-up results:

The Chapter implemented the corrective actions.

Issue 2: Lack of control over disbursement of Chapter funds led to questionable expenditures.

The initial audit found quotations prior to purchasing goods or services to ensure competitive prices or the most economical cost were not obtained. Also, receiving records were not prepared to ensure all goods were delivered and complete. In addition, the Chapter staff did not deface invoices to avoid duplicate payments.

Corrective Actions:

1. Obtain quotations prior to awarding any vendors for services and goods.
2. Complete receiving report upon receiving goods and service.
3. Deface invoice to avoid duplicate payment.

Follow-up results:

The Chapter is in the process of implementing the corrective actions. Although the Chapter defaces paid invoices, the Chapter is inconsistent in obtaining quotes, and documenting goods and/or services that were received. Of 26 selected samples tested for quotations, 9 (or 35%) did not have the required three quotes. For receiving reports, 27 samples tested found 5 (or 19%) did not have receiving reports to verify goods and/or services were received. However, the risk of the Chapter incurring questionable expenditures is deemed low.

Issue 3: Chapter hired a contractor without competitive bidding.

The initial audit found the Chapter secured services from a contractor to provide electrical services. In addition, the same contractor was hired to do other Chapter projects such as renovation and septic tank installation. The Chapter did not conduct public bidding before hiring the contractor.

Corrective Actions:

1. Comply with Navajo Nation Business Opportunity Act in procuring any goods and/or services over \$50,000.
2. Comply with Navajo Nation Procurement rules and regulations.

Follow-up results:

The corrective actions were found to be not applicable since the Chapter did not use contractual services and such agreements to purchase any goods and/or services.

Issue 4: Excessive travel incurred by the Chapter President and the former Community Service Coordinator (CSC.)

The initial audit found the Chapter President and the former CSC incurred travel expenditures totaling \$40,639 using the Chapter Activity, Local Governance Grant, and Sales Tax Revenue funds. Also, the audit revealed that the Chapter President and former CSC were on travel during the weekends; the Chapter President collected reimbursement from the Chapter while attending his regular job; and the CSC collected travel reimbursements, regardless of not submitting trip reports, the purpose of his travel, and lodging receipts to support his travel expenditures.

Corrective Actions:

1. Comply with Navajo Nation Travel policies and procedures handbook
2. Travel Authorization (TA) will be completed with authorized approval.
3. Upon completion of travel, the traveler will submit supporting documents, which are: TAs, mileage reports, trip reports, receipts for lodging and meals, and other incidental expenses, for reimbursement.

Follow-up results

The implementation of the corrective actions is still in progress. Examination of 10 travel expenditures found the Chapter is still inconsistent with the established travel policies and procedures in the following areas:

- Inaccurate calculation of per diem rates resulted in excess reimbursements of \$450.
- Lack of prior approval for travel.
- Inadequate supporting documentation.

However, despite these discrepancies, the amount of questioned costs from the initial audit has reduced from \$40,639 to \$450. Therefore, the risk for excessive travel has also reduced.

Issue 5: Unauthorized additional stipends were paid to former and current Chapter Officials.

The initial audit found Chapter Officials conducted Chapter meetings and committee meetings above the approved number of meetings appropriated by the Navajo Nation resulting in the unauthorized additional stipends. The additional stipends were paid contrary to the Local Governance Act. The Chapter Officials used the following Chapter funds that had available balances to pay unauthorized additional stipends:

- Chapter Activity
- Sales Tax Revenues
- Land Claims Trust Fund

- Summer Youth Employment Fund
- Local Governance Grant

Corrective Action:

1. Chapter funds budgeted or restricted for other operating expenditures shall not be used to support stipend activities.

Follow-up results:

The Chapter implemented the corrective action.

Issue 6: Lack of prudence in expending Chapter funds for housing-related assistance.

The initial audit found the Chapter expended approximately \$228,000 from its various Chapter funds to assist 54 applicants with labor and materials. The sample that was tested showed that recipients were assisted although required documents were not submitted. Therefore, there was no assurance that the Chapter awarded assistance to eligible members.

Corrective Actions:

1. Exercise prudence in all activities relative to housing-related assistance.
2. Develop and maintain required documents for application assessment on all applicants.
3. Develop and maintain files on all applicants until the project close-out.

Follow-up results:

The Chapter amended its Housing Discretionary Fund policies and procedures in July 2013 to require applicants to be ranked based on five factors: a) elderly/disability, b) annual income, c) family size, d) overcrowding, and e) unsanitary/unsafe conditions. Furthermore, the rankings were to be based on point allocations.

The Housing Discretionary Fund assistance reviewed totaled \$4,800 for six community members/families. The six housing recipients were not ranked based on the criteria defined in the Chapter's amended policies and procedures. The Chapter indicated that since point allocation sheets were not developed, the rankings could not be performed.

Nonetheless, the Chapter maintained complete applicant files with sufficient information to ensure the Housing Discretionary Fund was used to assist only eligible community members. Therefore, the corrective actions were determined as implementation in progress.

FINDING II

Chapter is Not in Compliance with Established Policies and Procedures in Expending Chapter Funds

Issue 7: The Chapter is not complying with the established Public Employment Project (PEP) Policies and Procedures.

The previous audit report indicated that the Chapter hired temporary workers to work on 18 PEP projects and expended \$283,130. However, the Chapter could not provide information on the workers involved in the PEP projects. Documentation was not on file at the Chapter.

Corrective Actions:

1. Comply with the PEP Policies and Procedures in employing temporary workers.
2. Develop and maintain necessary documents prior to employing any workers.

Follow-up results:

The Chapter implemented the corrective actions.

FINDING III

Chapter Accounting System Needs Improvements

Issue 8: The bank reconciliations were inaccurate

The initial audit found the former CSC did not ensure bank reconciliations were prepared accurately and completed in a timely manner. The Office Specialist who is the primary user of the accounting system had total control over the bank reconciliations without oversight by the CSC. Consequently, inaccurate bank reconciliations were not detected. Furthermore, there was no independent review of the bank activities. Consequently, when the Chapter bank account ended up with a negative balance of \$12,551, the Chapter Officials and CSC were not aware of the negative balance.

Corrective Actions:

1. Office Specialist will ensure bank reconciliation is accurate and done in timely manner.
2. CSC will review and verify the bank reconciliation for accuracy.
3. Secretary/Treasurer will ensure bank reconciliation is done accurately and in a timely manner.

Follow-up results:

The Chapter implemented the corrective actions.

Issue 9: The budgetary controls are weak.

The initial audit found the Chapter administration did not input accurately the fiscal year 2010 budget and the carryover balance into the accounting system. Also, the Chapter records showed at the end of April 2010 the following budgets were exceeded:

- Chapter Activity Fund was over expended by \$29,885
- Public Employment Fund was over expended by \$19,172
- Emergency Fund was over expended by \$3,173

The Chapter Officials used other funds that had available balances to subsidize the over expenditures. However, when the bank account cash balance had been depleted, the Chapter Officials continued to issue checks on an insufficient or negative cash balance. As a result, as of April 30, 2010, the Chapter bank account was overdrawn by \$12,551.

Corrective Actions:

1. Plan, establish annual budget and control expenditures for goods and/or services to be provided to the Chapter membership.
2. Abide by the budget(s) that was approved by community membership.

Follow-up results:

The Chapter implemented the corrective actions.

Issue 10: The Chapter is not accounting for its fixed assets.

In the initial audit, the Chapter staff has not prepared an inventory listing of the Chapter's capitalized property that will be reported on the fixed asset section of the balance sheet. All indications are that the Chapter staff needs training to account for Chapter assets and accurately report the assets in the Chapter's financial statements.

Corrective Actions:

1. Develop and maintain complete inventory listing that includes equipment and vehicles, which will be classified as capital property that belongs to the Chapter.
2. Input value of these capital assets into the accounting system so it will show on the Balance Sheet for the Chapter.

Follow-up results:

The Chapter implemented the corrective actions.

Issue 11: The Chapter's financial statements are not accurate, therefore are deemed unreliable.

The initial audit found revenues reported in the financial statements were inconsistent with revenues recorded in the cash receipts journal. The financial statements reported revenues totaling \$30,229. In contrast, the cash receipts journal reported revenues totaling \$43,410. In addition, travel advances and travel expenditures posted in the accounting system were inaccurate.

Corrective Action:

1. Obtain technical assistance in generating accurate financial statements.

Follow-up results:

The Chapter implemented the corrective action.

Issue 12: There is lack of oversight by the Chapter Officials

The initial audit found the Chapter Officials did not ensure the Chapter accounting system was properly maintained by the Chapter staff. According to the Chapter Officials, the lack of technical assistance by the Local Governance Support Center contributed to the Officials lack of knowledge in the proper operation of the computerized accounting system. Consequently, staff performance in maintaining the system was not monitored.

Corrective Actions:

1. Chapter President will provide supervisory guidance of the CSC.
2. Chapter Officials will ensure that Chapter operations are within policies and procedures.
3. Chapter Officials shall obtain technical assistance regarding guidelines, rules and policies in monitoring Chapter operations.
4. Chapter Officials shall monitor and evaluate the CSC's performance.

Follow-up results:

The Chapter implemented the corrective actions.

CONCLUSION

The Fort Defiance Chapter has implemented the majority of corrective actions outlined in the CAP and as such, has demonstrated improvements to ensure accountability and safeguarding of Chapter assets and resources. Overall, corrective actions to strengthen internal controls and comply with rules, policies, procedures and funding stipulations have been implemented. Therefore, the Office of the Auditor General does not recommend sanctions be imposed on the Fort Defiance Chapter and Officials in accordance with 12 N.N.C., sections 9(B) and 9(C).