

OFFICE OF THE AUDITOR GENERAL

The Navajo Nation

A Special Review of the Leupp Chapter

**Report No. 14-20
August 2014**

**Performed by:
Jeanine Jones, Auditor
Robert Jumbo, Auditor**



August 22, 2014

Roberta Gorman, President
Leupp Chapter
PO Box 5428
Leupp, AZ 86035

Dear Ms. Gorman:

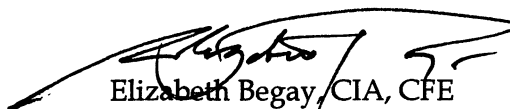
The Office of the Auditor General herewith transmits Audit Report No. 14-20, A Special Review of Leupp Chapter (Chapter). The review revealed the following deficiencies in chapter finances and activities.

- Finding I: Ineligible recipients receive housing assistance.
- Finding II: Capital Outlay was not expended in accordance with the intent of the Navajo Nation Council.
- Finding III: Expenditures were not authorized and supported with documentation.
- Finding IV: Expenditures and assets were not accurately posted to the accounting system.
- Finding V: Chapter employees were not accurately compensated.
- Finding VI: The Chapter is not in compliance with State unemployment regulations.
- Finding VII: Chapter property/equipment, resale items and housing materials were not safeguarded.
- Finding VIII: Chapter Officials are not monitoring chapter activities and collaborating with the Chapter administration.

In addition to the audit findings, the report provides recommendations to improve management of chapter finances and activities.

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

Sincerely,



Elizabeth Begay, CIA, CFE
Auditor General

xc: Kevin Todacheenie, Vice President
Genevieve Riggs, Secretary/Treasurer
VACANT, Chapter Manager
Walter Phelps, Council Delegate
LEUPP CHAPTER
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INTRODUCTION AND BACKGROUND

The Office of the Auditor General has conducted a special review of Leupp Chapter (Chapter) for the 21-month period ending June 30, 2013. The special review was requested by the Chapter Officials because of concerns over Chapter staff management of Chapter finances and projects. Accordingly, the special review was conducted pursuant to the authority vested in the Office of the Auditor General by 12 N.N.C., Chapter 1, § 1 - 10.

Leupp Chapter is a political subdivision of the Navajo Nation and is considered a general purpose local government for reporting purposes. Navajo Nation Chapters are required to operate under Title 26 of the Navajo Nation Code, the Local Governance Act (LGA). In July 2011, Leupp Chapter was LGA certified by the Resources and Development Committee of the Navajo Nation via resolution RDCJY-12-11.

The majority of the Chapter resources are provided through appropriations from the Navajo Nation central government which are intended to fund direct and indirect services at the local chapter government. Funding for the direct services are considered restricted funds with specific intended purposes.

The Chapter also generates internal revenues from rentals, resale and miscellaneous services. Any unexpended funds at the end of the fiscal year are carried over to the next fiscal year. Table 1 shows the total Chapter resources available for the 21-month audit period ending June 30, 2013.

Table 1
Total resources available for the 21-month audit period ending June 30, 2013

Fund Name	Source	Amount
Chapter Activities	Internal Revenue	\$110,093
Navajo Nation General Fund	Navajo Nation	348,531
Land Claims Trust	Navajo Nation	105,958
Grazing Official Stipend	Navajo Nation	10,327
Housing Discretionary	Navajo Nation	17,897
LGA Grant	Navajo Nation	105,570
Chapter Stipend	Navajo Nation	76,886
Scholarship	Navajo Nation	16,827
Public Employment Program	Navajo Nation	96,838
Veterans	Navajo Nation	15,096
Sales Tax	Navajo Nation	91,490
Capital Outlay	Navajo Nation	136,872
Post Office	Postal Service	33,450
TOTAL:		\$1,165,837

Source: Auditor General compilation of all appropriations and revenues

Of the \$1,165,837 total available resources, \$330,016 (or 40%) was expended for direct services and \$501,746 (or 60%) for indirect services. The Leupp Chapter has one bank account: checking account. As of June 30, 2013, the Chapter had a balance of \$334,075.

Objective, Scope, and Methodology

The following objectives were established for this special review:

- Determine whether the housing recipients were eligible to receive assistance.
- Determine whether the Capital Outlay Fund was expended in accordance with the intent of the Navajo Nation Council.
- Determine whether expenditures were authorized and supported with documentation.
- Determine whether expenditures and assets were accurately posted to the accounting system.
- Determine whether the Chapter staff were accurately compensated.
- Determine whether the Chapter is in compliance with payroll regulations.
- Determine whether physical controls were in place to safeguard chapter property and assets.
- Determine whether the Chapter Officials were monitoring Chapter activities and collaborating with the Chapter administration.

The scope for this review was as follows:

- Chapter Activities – October 01, 2011 through June 30, 2013.
- Administrative Staff Payroll – October 01, 2011 through January 31, 2014

In meeting the objectives, we interviewed the Chapter administration and Officials, observed Chapter operations, and examined available records. More specifically, we tested samples of expenditures for internal controls and compliance requirements by using a non-statistical, judgmental method. Chapter property and building materials inventory were also examined to determine if they are adequately safeguarded from loss. Lastly, onsite visits were made to selected residences to verify housing projects.

Government Auditing Standards

This audit was conducted in accordance with government auditing standards. Those standards require that we plan and perform the audit to afford a reasonable basis for our judgments and conclusions regarding the Chapter under audit. An audit also includes assessments of applicable internal controls and compliance with requirements of laws and regulations when necessary to satisfy the audit objectives. We believe that our audit provides a reasonable basis for our conclusions.

The Office of the Auditor General expresses its appreciation to the Leupp Chapter Officials and administration for their cooperation and assistance throughout the audit.

REVIEW RESULTS

Each year, Leupp Chapter receives annual appropriations to fund direct services to its local community members. To ensure these direct services are provided in a timely and fair manner, the Chapter is required to administer funds in accordance with established guidelines, policies and procedures. In addition, an adequate internal control structure ensures accountability over Chapter revenue and expenses. However, our review of the Chapter activities has revealed deficiencies in Chapter operation and activities.

Finding I: Ineligible recipients receive housing assistance

Criteria: Chapter staff are required to obtain applications and supporting documentation for housing assistance to evaluate and rank in order to ensure assistance is awarded to eligible members.

Condition: 14 of 15 (or 93%) of housing assistance recipients reviewed did not have an application with supporting documentation for the Chapter manager and officials to evaluate and rank.

Effect: There is \$60,600 in questionable disbursements for the housing assistance program.

Cause: The Chapter Officials claim that the staff did not collect the required documents from the applicants. Nevertheless, the Chapter manager was allowed to select the housing recipients regardless of whether they were eligible to receive assistance or not.

Recommendation(s):

- 1) Chapter staff should ensure only complete applications with supporting documentation are forwarded for evaluation and ranking.
- 2) Chapter Officials and manager are to review, evaluate and rank each applicant.
- 3) Only applicants that are eligible should be approved and assisted.

Finding II: Capital Outlay was not expended in accordance with the intent of the Navajo Nation Council

Issue: \$110,000 Capital Outlay was expended for administrative and unidentified expenses

Criteria: The Navajo Nation appropriated the capital outlay fund totaling \$620,910 between fiscal year 2006 and 2013 for community and economic development investments and capital improvement projects.

Condition: The Chapter did not expend the capital outlay fund for capital improvement projects. Approximately \$110,000 was reported expended for staff bonuses, operating supplies, office supplies and unidentified/miscellaneous expenses.

Effect: \$110,000 expended for administrative expenses takes away funds that could have been used for capital improvement projects.

Cause: The Chapter Officials and staff disregarded the Capital Outlay Fund restrictions in expending of the fund.

Recommendation(s): The Chapter officials and staff should expend the capital outlay fund on capital improvement projects.

Issue: Chapter projects were not properly managed

Criteria: The Chapter is required to ensure chapter projects are properly planned and constructed to eliminate waste of Chapter resources.

Condition: \$32,000 Chapter resources were used for projects that were inadequately planned and poorly constructed. Listed below are the deficiencies noted:

Project	Cost	Deficiencies
Grandfalls crossing construction	\$14,684	Poured cement washed away due to construction done during the monsoon season
Well repair	\$17,013	Constant repair of the well due to existing structural issue
TOTAL:	\$31,697	

Effect: \$32,000 of chapter resources was potentially wasted and additional funds will be needed for rework of these projects.

Cause: Chapter officials and staff did not give importance to thoroughly plan and hire qualified contractors for the Chapter projects.

Recommendation(s): 1) Develop a checklist on planning, construction and monitoring of Chapter projects.
2) Select qualified contractors.

Finding III: Expenditures were not authorized and supported with documentation

Issue: Chapter internally generated revenue was expended without an approved budget

Criteria: The Chapter is required to develop a budget for the internally generated revenue and present the budget to the community members for adoption prior to expending the fund.

Condition: A budget was not created for approval by the community members before expending \$118,000 of internally generated revenue.

Effect: \$118,000 unauthorized expenditures.

Cause: The staff did not follow the budget process.

- Recommendation(s):
- 1) Develop and adopt a budget for internally generated revenue prior to expending funds.
 - 2) Post budgets to the accounting system in accordance to the adopted budget.

Issue: Unauthorized inter-fund transfers between chapter funds

Criteria: A transfer between Chapter funds requires approval by Chapter officials and community members.

Condition: The Chapter staff transferred approximately \$28,000 between Chapter funds without approval from the Chapter officials and the community members. Listed below are the inter-fund transfers:

From		To	
Fund	Amount	Fund	Amount
Chapter Activities	10,440.42	Official Stipend	282.45
Land Claims Trust	3,544.67	Capital Outlay	17,846.31
LGA Grant	3,772.00	Senior Funds	130.50
NN Sales Tax	10,529.64	Grazing Official	4.44
		LGA Grant Fund	3,500.00
		Post Office Fund	6,523.03
	28,286.73		28,286.73

Effect: \$28,000 unauthorized use of Chapter funds.

Cause: To cover the deficits of various Chapter funds, the staff arbitrarily posted inter-fund transfers in the accounting system without informing the Chapter officials and the community members.

- Recommendation(s):
- 1) The chapter staff should inform officials of the request for any inter-fund transfer for approval.
 - 2) Present the inter-fund transfers to the community members for approval.

Issue: No documentation to justify the use of \$74,000 chapter resources

Criteria: The Chapter is required to maintain a proper recordkeeping system of supporting documentation in order to justify the use of chapter resources.

Condition: We reviewed samples of expenditures for adequacy of supporting documentation (quotation, receiving reports, travel authorization, travel and mileage reports, and invoices/receipts) and found the following expenditures lack documentation:

Expenditure	Exception	Questionable
Capital Outlay	16 of 30 (or 57%)	\$42,881
Travel	16 out of 35 (or 43%)	\$7,222
Operation	27 of 44 (or 61%)	\$24,820
TOTAL:		\$74,923

Effect: The Chapter cannot justify \$74,923 of expenditures. There are risks that the Chapter paid higher prices, did not receive the goods and services procured and incurred personal travel.

Cause: The Chapter Officials and manager did not properly review the voucher packets to verify all required documentation was attached prior to co-signing checks.

Recommendation(s): 1) Chapter officials and staff should ensure all required supporting documentation is attached before signing checks.
2) Chapter Staff should maintain proper records of all chapter expenditures.

Finding IV: Expenditures and assets were not accurately posted to the accounting system

Issue: Approximately \$60,000 of Chapter expenditures were not properly classified with the correct GL Code (Object Account)

Criteria: Proper classification of expenses is required to ensure reliable reporting of Chapter expenses to Chapter officials and community members.

Condition: Chapter staff did not properly classify Chapter expenses. Although the Chapter has a chart of accounts to properly classify expenses, the staff posted \$40,035 of expenses as unidentified and miscellaneous without identifying the actual GL Code of expenses based on description of goods or services procured. In addition, based on our analysis of the description of goods and services procured, we identified that approximately \$19,952 was misclassified.

Effect: Unreliable reporting of \$60,000 expenses to Chapter officials and community members.

Cause: Chapter staff posted Chapter expenses without using the Chart of Accounts.

Recommendation(s): Chapter staff should properly classify Chapter expenses using the Chart of Accounts based on the description of goods and services procured.

Issue: Fixed assets were not recorded and reported in the accounting system and the financial statements

Criteria: Chapter staff are required to record and report fixed (capital) assets in the accounting system and the financial statements.

Condition: Fixed (capital) assets were not recorded and reported in the accounting system and financial statement.

Effect: Approximately \$2 million of Chapter property and equipment were not reported to Chapter members.

Cause: Chapter staff did not give importance in posting fixed (capital) assets to the accounting system.

Recommendation(s): Chapter Officials and staff should record and report the fixed (capital) assets in the accounting system and the financial statements.

Finding V: Chapter employees were not accurately compensated

Issue: Administrative staff annual leave accrual rate was not approved

Criteria: An LGA certified chapter is required to insure that the leave accrual rate of its permanent regular status employees is clearly defined, approved and documented in their personnel file.

Condition: There was no record (documents, resolution) of approved leave accrual rate for the administrative staff when they transitioned to chapter employees.

Effect: The 320 and 223 accrued annual leave balances posted in the accounting system for the manager and administrative assistant respectively, when they resigned from the chapter in 2014, is questionable. The rate used to calculate the total payout of \$3,654 for accrued leave for the administrative assistant was unclear.

Cause: The former Chapter Officials overlooked the importance of clearly defining and approving the leave accrual rate for the administrative staff before transitioning into Chapter employees.

Recommendation(s): The chapter officials should clearly define, approve and document the leave accrual rate for permanent regular status Chapter employees.

Issue: Questionable wages paid to the administrative staff

Criteria: The number of hours worked posted in the accounting system should be supported with approved timesheet.

Condition: Comparison between posted worked hours in the accounting system to approved timesheets found variances between the two sets of records. Approximately 320 posted work hours were not supported by timesheets. In addition, document to support an advance payment of \$612 to the administrative assistance was not on file.

Effect: Approximately \$6,600 in wages paid to the Chapter administration is questionable.

Cause: The Chapter administration had sole control of the accounting system that allowed them to post hours worked without considering the approved timesheets.

Recommendation(s):

- 1) Chapter administration should ensure posted hours worked reflect the approved timesheets.
- 2) If repayment of advance payment document is not made, administration assistance should be required to pay back the \$612 to the chapter.
- 3) Chapter Manager and Secretary/Treasurer should closely monitor posted work hours.

Issue: Payroll checks were released 2-6 days early prior to pay periods ending

Criteria: The Chapter established a pay date schedule to identify the dates in which payroll will be disbursed to employees. It provides control over issuance of payroll checks to avoid early release of payroll checks.

Condition: 67% of the payroll tested found employees were paid 2-6 days before the pay period ending which is inconsistent with the pay date schedule.

Effect: Employees were paid for hours not worked.

Cause: The Chapter administration has sole control over the payroll and issued payroll checks regardless of the established pay date schedule. The Chapter officials signed off on the payroll checks without questioning the early release of payroll checks.

Recommendation(s):

- 1) The Chapter administration should process payroll checks consistent with the pay schedule.
- 2) Chapter Manager and Secretary/Treasurer should review and verify to ensure payroll checks are not processed early.

Issue: Questionable bonus pay paid to staff totaling \$5,500

Criteria: Bonus pay is paid based on an overall performance rating of "Significantly Exceeds Standards" or "Outstanding."

Condition: The available documentation did not support an overall performance rating of "Significantly Exceeds Standards" or "Outstanding" for the employees who received the bonus pay.

Effect: \$5,500 in bonus pay was deemed questionable.

Cause: Chapter staff had sole control over the processing of bonus pay. The former Chapter officials signed off on the bonus checks without question.

Recommendation(s): Chapter officials should ensure that only employees who were rated significantly exceeding standard or outstanding performance receive bonus pay.

Finding VI: The Chapter is not in compliance with State unemployment regulations

Criteria: In Arizona, Department of Economic Security (DES) requires employers to register to establish an account, report all wages and pay unemployment taxes for each employee.

Condition: The Chapter did not pay unemployment taxes for Chapter employees.

Effect: The Chapter will be liable for employee's unemployment benefit if determined eligible to receive the benefit.

Cause: The Chapter was not aware they were required to report wages and pay unemployment taxes.

Recommendation: The Chapter manager should report wages and pay unemployment taxes for its employees.

Finding VII: Chapter property/equipment, resale items and housing materials were not safeguarded

Issue: Annual physical count of Chapter property/equipments was not performed

Criteria: The Chapter is required to perform annual physical inventory to account for its property/equipment and update its inventory listing.

Condition: Annual physical inventory was not performed to update the inventory listing with new purchases and disposals. The last physical inventory was completed on January 10, 2011, three years ago. Three laptops costing \$4,500 purchased during our audit period were not on the inventory list.

Effect: The Chapter cannot fully account for its property/equipment. In

addition, there is a risk of monetary losses to the Chapter if property/equipment not listed are stolen or disposed of without the Chapter's knowledge.

Cause: Chapter staff disregarded the importance of performing an annual physical count to update its inventory listing.

Recommendation: Chapter staff should perform an annual physical inventory count of all Chapter property and equipments to update the inventory with all new purchases and disposals.

Issue: Perpetual inventory was not maintained for resale items

Criteria: The Chapter is required to maintain perpetual inventory for all resale items and support documentation on all inventory transactions on an ongoing basis to reflect the inventory receipts, issuances and balances.

Condition: Although the Chapter accounting system has a perpetual inventory component, it was not utilized to maintain receipts, issuances and balances of hay resale. The chapter purchased 1,474 bales of hay totaling \$26,880 for resale to the community. However, posted revenue totaled \$23,414 resulting in a loss of \$3,466.

Effect: Approximately \$3,500 was loss in the hay resale activity.

Cause: Chapter staff may have resold the hay at a reduced price. However, without a perpetual inventory, we cannot determine receipts, issuances and balances.

Recommendation(s): Chapter staff should utilize the accounting system perpetual inventory to record receipts, sale price, issuances and balance of the hay resale activity.

Issue: No inventory controls for unused housing materials

Criteria: Inventory controls for construction-related materials are crucial to ensure accountability and to manage costs. An inventory control sheet keeps track of supplies on hand and supplies moving in and out of the warehouse.

Condition: An inventory control sheet was not created to keep track of the materials taken out or returned back to the warehouse. We found unused roofing materials and stove pipes from previous projects stored in the warehouse.

Effect: There is a risk that the unused materials can be stolen without detection.

Cause: The Chapter administration did not give importance in tracking unused building materials that can be used in other projects.

Recommendation(s): 1) Chapter staff should create an inventory control sheet for the unused materials.
2) Chapter staff should require the PEP workers to sign for materials taken out and returned back to the warehouse.

Finding VIII: Chapter Officials are not monitoring chapter activities and collaborating with the Chapter administration

Issue: Monitoring of Chapter activities was not performed

Criteria: The Chapter officials and manager are required to ensure that staff is adequately meeting the Chapter's directives and expending funds according to established conditions by performing independent checks and monitoring to ensure compliance of the Chapter laws, funding guidelines, policies and procedures.

Condition: Results of our review indicate the officials and manager did not perform independent checks and monitor Chapter activities and projects to identify deficiencies found in this special review.

Effect: Without performing independent checks and monitoring, deficiencies are not detected and prevented.

Cause: The Chapter officials and manager disregarded their duties and responsibilities of performing independent checks and monitoring.

Recommendation(s): The Chapter officials and manager should perform independent checks and monitoring to avoid deficiencies.

Issue: Poor working relationship between Chapter administration and Officials

Criteria: The Chapter administration and Officials are required to work together to provide services to the Chapter members. The administration is responsible for meeting the tasks required of their positions and the officials are required to carry out the decisions of the Chapter members and not hinder those decisions in anyway.

Condition: Throughout our review, the officials and the chapter manager were in disagreement over chapter decision-making, roles and responsibilities and sharing of information.

Effect: Disagreements among the administration and officials led to disruption, delays and inefficiencies in Chapter operations and delivery of services.

Cause: There is a lack of effective communication among the administration and officials.

Recommendation(s):

- 1) The Chapter administration and officials should improve communication by clarifying their duties and responsibilities.
- 2) The Chapter administration and officials should be mindful of the Chapter's purpose in delivering services to the community and as such, work as a team in providing such services.

CLIENT RESPONSE

Roberta I. Gorman, President
Kevin Todacheenie, Vice President
Genevieve Riggs Secretary/Treasurer



Walter Phelps, Council Delegate
Allen Jones, Grazing Committee Member
Varian Begaye, Administrative Assistant

LEUPP CHAPTER

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August 06, 2014

Navajo Nation Office of Auditor General
Elizabeth Begay, CIA, CFE

Dear Mrs. Begay:

We are in receipt of your Final Draft of the Leupp Chapter Audit Finding date July 25, 2014. We agree to the audit findings and have already been in process of correcting. We are given you the Correction Action Plan base on your recommendations.

If you should have any questions please call us at 928-686-3227.

Thank You.

Sincerely,

Roberta Gorman, Leupp Chapter President

Cc: Regina Allison, SPPS, LGSC
Kevin Todacheenie, Vice- President
Genevieve Riggs, Sec./Treasurer
Walter Phelps, Council Delegate

