

OFFICE OF THE AUDITOR GENERAL

The Navajo Nation

**Audit
of the
Oak Springs Chapter**

**Report No. 14-21
August 2014**

Performed by:
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August 28, 2014

Raymond Berchman, President
OAK SPRINGS CHAPTER
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Window Rock, Arizona 86515

Dear Mr. Berchman:

The Office of the Auditor General herewith transmits Audit Report No. 14-21, Audit of Oak Springs Chapter. The audit was conducted with the following objectives:

- Determine whether the Oak Springs Chapter properly used funds intended for services for its membership.
- Determine whether the Oak Springs Chapter implemented adequate internal controls while providing services to the Chapter membership.

Review Results

Finding I: Chapter funds for direct services were not expended as intended.

- Issue: No records to trace approximately \$319,000 of capital fund expenses to capital projects.
- Issue: PEP workers were employed for extended periods of time.
- Issue: PEP funds are not used for on-the job training.
- Issue: \$25,000 housing assistance readily available to potentially assist 30 community members remains unspent.

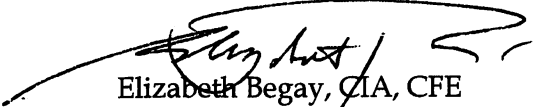
Finding II: Control deficiencies with Chapter operations and activities.

- Issue: Property inventory is incomplete.
- Issue: Fixed assets are not reported in financial statements.
- Issue: Chapter membership does not receive monthly financial reporting.
- Issue: Chapter does not comply with state unemployment requirements.
- Issue: Travel documents are not properly signed by travelers and/or approvers.
- Issue: Chapter has not adopted the standard Five Management System manual.

In addition to the audit findings, the report provides recommendations to correct the reported deficiencies and improve Chapter operations.

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

Sincerely,



Elizabeth Begay, CIA, CFE
Auditor General

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INTRODUCTION AND BACKGROUND

The Office of the Auditor General has conducted an audit of the Oak Springs Chapter for the 12-month period ending September 30, 2013. The audit provides an evaluation of Chapter operations and activities performed while providing services to the Chapter membership.

Since April 1998, the Oak Springs Chapter has been required to operate under the Navajo Nation Local Governance Act (LGA). Accordingly, the Chapter administrative duties are performed by the Chapter Community Services Coordinator (CSC) and Accounts Maintenance Specialist (AMS). Oversight responsibility is provided by the elected Chapter Officials and the Fort Defiance Agency Local Governance Support Center (LGSC).

In April 2010, the Navajo Nation Department of Justice developed a standard Five Management System (FMS) policies and procedures manual to be adopted by Navajo Nation chapters. However, the Oak Springs Chapter has yet to approve the standard FMS manual.

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

The Chapter also generates internal revenues from fees collected for providing 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 12-month audit period ending September 30, 2013.

Table 1
Budget and actual expenditures for direct/indirect services for the 12-month audit period ending September 30, 2013

Service Type	Category	Budget		Actual	
		Amount	Percent	Amount	Percent
Direct Services:	a) Community projects	\$ 87,935	30%	\$ 5,548	7%
	b) Emergency relief services	85,472	28%	16,902	20%
	c) Student assistance/services	64,575	21%	37,303	44%
	d) Job training/short-term employment	37,268	12%	21,797	26%
	e) Housing assistance	24,600	8%	-	0%
	f) Social services (i.e., veterans)	3,017	1%	2,810	3%
	<i>Total - Direct Services:</i>	\$ 302,867	100%	\$ 84,360	100%
<i>Percent of Grand Total - Direct Services:</i>	64%		46%		
Indirect Services:	a) Operating	\$ 76,528	44%	\$ 32,134	32%
	b) Stipends	52,135	30%	49,217	49%
	c) Capitalized expenses	20,950	12%	6,715	7%
	d) Travel	16,231	10%	11,807	12%
	e) Payroll	6,428	4%	866	0%
	<i>Total - Indirect Services:</i>	\$ 172,272	100%	\$ 100,739	100%
<i>Percent of Grand Total - Indirect Services:</i>	36%		54%		
GRAND TOTAL:	\$ 475,139		\$ 185,099		

Source: Auditor General compilation of budget and actual expenditures

The Oak Springs Chapter has one primary checking account. As of September 30, 2013, the checking account had an ending reconciled bank balance of \$290,040.

Objective, Scope, and Methodology

This audit was conducted pursuant to the authority vested in the Office of the Auditor General by 12 N.N.C., Chapter 1, §1 - 10. Accordingly, the following objectives were established for this audit:

- Determine whether the Oak Springs Chapter properly used funds intended for services for its membership.
- Determine whether the Oak Springs Chapter implemented adequate internal controls while providing services to the Chapter membership.

The audit covers Chapter activities for the 12-month period of October 1, 2012 through September 30, 2013.

In meeting the audit objectives, we interviewed 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 was also examined to determine if they are adequately safeguarded from loss.

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 Oak Springs Chapter Officials and administration for their cooperation and assistance throughout the audit.

REVIEW RESULTS

Finding I: Chapter funds for direct services were not expended as intended.

The expenses incurred by the Chapter provide an indication of the type of direct services that were provided during the audit period. Per Table 1 of this report, total available resources for direct services were \$302,867 and the Oak Springs Chapter utilized \$84,360 (or 28%) of these resources as of September 30, 2013.

Overall, the Chapter provided direct services in the following areas:

- Community projects (via use of capital outlay funds)
- Emergency relief services
- Student educational assistance/temporary employment services
- Job training/short-term employment services
- Housing assistance
- Veterans assistance

Our examination of sample disbursements of student assistance/services, veterans assistance, and emergency relief services revealed no material discrepancies. However, the following issues were noted regarding community projects, job training, and housing assistance.

A. Community Projects funded with Capital Outlay Funds

Since fiscal year 2006, the Oak Springs Chapter has been appropriated funds from the Navajo Nation central government to address capital improvement needs within the Chapter community. The Chapter's capital outlay appropriations from FY2006 thru FY2013 totaled approximately \$621,000 and to date, the Chapter has expended approximately \$517,000 (or 83%). However, only \$198,000 of the capital expenses could be identified based on available records.

Issue: No records to trace approximately \$319,000 of capital fund expenses to capital projects.

Criteria: The intent of the capital outlay funds is to invest in Chapter improvement projects. Accordingly, the Chapter is required to maintain project files to support the investments of capital outlay funds on Chapter improvement projects.

Condition: Based on limited records found on file, only \$138,000 of expenses could be traced specifically to capital projects and \$60,000 identified as administrative costs. However, the remaining amount of \$319,000 could not be traced to the capital projects budgeted by the Chapter. The following table summarizes the capital fund expenses:

	<i>Sub-total</i>	<i>Total</i>
Capital Project Costs:		
a) Powerline (matching funds)	\$77,569	
b) Chapter renovation	4,365	
c) Home renovations	12,825	
d) Bathroom additions	30,360	
e) Headstart building renovation	11,684	
f) Waterline extension	1,116	\$137,919
Administrative Costs		\$59,737
Unidentified Expenses		\$318,874
TOTAL:		\$516,530

Effect: Although approximately \$517,000 of capital outlay funds has been expended to date, only \$138,000 (or 27%) could be traced to capital projects. Therefore, the Oak Springs Chapter cannot provide reasonable assurance that all capital funds were used to achieve capital improvements within the community.

Cause: Poor recordkeeping has been a systemic problem at the Chapter due to frequent staff turnover within the Chapter administration. In addition, there was no indication that the Chapter Officials monitored the management of the capital projects.

Recommendation(s):

- 1) The Chapter CSC should establish a project file for each capital project. The file should contain pertinent records such as a project narrative, budget, project timeline, expense reports, and percentage of completion.
- 2) The Chapter officials should monitor the Chapter's recordkeeping to make sure project files are kept current to provide accurate information on project status.

B. Job Training/Short-term Employment Services

The Oak Springs Chapter Public Employment Program (PEP) is intended to provide short-term employment and on-the-job training to registered voters within the Chapter community. Accordingly, for the 12-month audit period, the Chapter had total available resources of approximately \$34,500 within its PEP fund to employ and train local community members. Of this amount, the Chapter expended approximately \$22,000 (or 64%) but the funds were used contrary to the intended purpose of the program.

Issue: PEP workers were employed for extended periods of time.

Criteria: The intent of the Public Employment Program is to help reduce the unemployment rate within the community by offering short-term employment to community members. The personnel policies limit temporary employment to a maximum of six consecutive months and if employment is continuous for one year, the Chapter must justify

maintaining the position as temporary or budget the position as a regular permanent status employee.

Condition: For the audit period, there were 12 PEP employees and two of these employees worked consecutively for eight months during the audit period. There were no written justifications found to justify the extended employment of these employees beyond six months.

Effect: The \$10,000 wages paid to long-term workers resulted in fewer workers hired under PEP. There is also a risk that the longer the period that temporary employees work, the less likely that these individuals will be considered temporary and may become eligible for the benefits of a regular status employee. As such, the Chapter may be potentially liable for employment-related claims by temporary employees.

Cause: The Chapter officials indicated that administrative support staff was needed and only PEP funds were available to fund the position.

Recommendation(s): 1) The Chapter should adhere to the PEP funding guidelines which stipulate that the fund is intended for short-term employment and on the job training.
2) The Chapter should adhere to its personnel policies and procedures when hiring individuals on a temporary basis.

Issue: PEP funds are not used for on-the job training.

Criteria: The intent of the PEP funding is also to provide on-the-job training to registered voters within the Chapter community. On-the-job training allows workers to learn how to do work through hands-on experience, and can be a useful tool to helping unemployed people develop new job skills.

Condition: For the 12-month audit period, there were three PEP projects completed by the Chapter. The projects were evaluated to verify whether the Chapter provided on-the-job training to the employees hired for these projects. The project documentation provided for our review had no references of such training. In addition, these PEP workers already had prior work experience when they were initially hired. Overall, there was no clear indication by the Chapter that the PEP projects were intended for skill development.

Effect: Chapter community members, who may have otherwise benefited from on-the-job training to acquire new skills that would have been helpful in gaining employment, were not afforded such opportunities with the Chapter PEP. Therefore, the use of \$22,000 PEP funds is questionable.

Cause: The Chapter was unaware of the specific intent of the Public Employment Program. Chapter management understood the funds could to be used for any temporary employment needed at the Chapter.

- Recommendation(s):
- 1) The Chapter should ensure its Public Employment Program is used for on-the job training.
 - 2) The Chapter administration should clearly define how a PEP training program will be implemented.
 - 3) The Chapter administration should make sure PEP project files document the on-the-job training or some form of skill development provided to temporary workers.

C. Housing Assistance

The Oak Springs Chapter housing services program is to improve the living standards of community members by assisting with home repair and maintenance. Accordingly, for the 12-month audit period, the Chapter had total available resources of approximately \$25,000 for housing assistance for local community members. However, since the Chapter did not expend any of these funds during the audit period, no housing assistance was provided to Chapter community members.

Issue: \$25,000 readily available to potentially assist 30 community members remains unspent.

Criteria: The intent of the Housing Discretionary fund is to provide eligible Chapter community members with housing assistance in the form of minor and major repairs.

Condition: The fiscal year 2013 Chapter budget earmarked approximately \$14,000 for home repair/renovation and \$11,000 to construct bathroom additions to assist 30 community members. However, the financial statements reported no expenditures for housing assistance. This meant that no assistance was provided during the year.

Effect: There are potentially 30 Oak Springs Chapter community members whose housing needs were not addressed by the Chapter.

Cause: The Chapter's former housing selection committee had disbanded and since new committee members had yet to be selected, the Chapter was unable to expend the housing funds.

- Recommendation(s):
- 1) The Chapter should make it a priority to re-establish its housing selection committee.
 - 2) In the absence of a housing committee, the Chapter should consider an alternative approach in selecting housing recipients to facilitate timely awards of assistance.

Finding II: Control deficiencies with Chapter operations and activities.

Internal controls need to be sufficient and effective to ensure proper accountability of resources and activities. Accordingly, the standard FMS policies and procedures manual and the Local Governance Act require each Navajo Nation Chapter to exercise adequate internal controls in daily operations and in the expenditure of its funds.

However, our review of Oak Springs Chapter processes and examination of financial transactions has revealed control deficiencies with property management, financial reporting, payroll, and travel.

Issue: Property inventory is incomplete.

Criteria: Section VII, Property Records, of the FMS Property management policies and procedures requires the Chapter to maintain a complete, detailed and accurate identification of all chapter properties at all times, and to ensure all property is tagged with identification numbers. Section V assigns the Chapter Manager the task of ensuring the inventory is current and complete.

Condition: The Chapter property inventory was dated and incomplete because it did not disclose pertinent information such as property value, serial number, condition, and location. In addition, 8 of 11 fixed assets that were physically examined did not have affixed property numbers to clearly distinguish the items as Chapter property.

Effect: In the absence of information, the Chapter cannot provide reasonable assurance that all property owned and controlled by the Chapter is accounted for on chapter premises.

Cause: Due to a high turnover in the Chapter CSC position, the Chapter's property inventory was not periodically updated. The Chapter Officials also did not monitor property management to ensure the staff was complying with applicable policies and procedures.

Recommendation(s):

- 1) The Chapter Administration should procure and affix pre-numbered property tags on all property.
- 2) The Chapter Administration should complete the property inventory with appropriate information on each property item.
- 3) The Chapter Officials should monitor the work activities of the Chapter CSC to ensure assigned duties and responsibilities are being fulfilled including proper management of Chapter property.

Issue: Fixed assets are not reported in financial statements.

Criteria: Section F, Capital Assets, of the FMS fiscal management policies and procedures requires the Chapter administration to report capital assets in the balance sheet.

Condition: The chapter balance sheet for fiscal year ending September 30, 2013 did not report any capital (fixed) assets.

Effect: The balance sheet does not report an accurate value of the Chapter's assets. At the very least, about \$900,000 in fixed assets is not reported by the Chapter.

Cause: Although the Chapter reported some fixed assets for insurance purposes to the Risk Management Department, the property inventory includes other items that could be considered capital assets. However, since the values of these property items were unknown, the Chapter did not report such assets on the balance sheet.

- Recommendation(s):
- 1) Once the property inventory is properly updated, the Chapter administration should determine the fixed assets and the total value of these assets.
 - 2) The Chapter CSC should work with the MIP consultant to post the total fixed assets into the MIP accounting system and generate financial statements reporting such assets.

Issue: Chapter membership does not receive monthly financial reporting.

Criteria: Section 1001(B) 3.i., Financial Reporting, of the Local Governance Act (LGA) requires the Secretary/Treasurer to report the financial position of the Chapter at duly called monthly Chapter meetings.

Condition: Meeting minutes for seven months (or 58%) of the 12-month review period did not indicate financial reports were presented to the Chapter membership.

Effect: The Chapter membership is unaware of key financial activities such as revenues and expenses totaling approximately \$320,000 and \$185,000, respectively, for the audit period.

Cause: According to the Chapter, due to the high turnover of Chapter staff, there was no administrative staff readily available to generate the financial reports in a timely manner. On the other hand, the Chapter Officials did not seek alternative measures such as LGSC assistance to ensure the financial reports were still generated for the Chapter membership.

- Recommendation(s):
- 1) In the absence of Chapter staff, the Officials should work closely with LGSC to generate the accurate and timely financial reports.
 - 2) The Chapter Secretary/Treasurer should ensure financial reports are presented to the Chapter membership at duly called meetings and the presentation of such reports are documented in the minutes.

Issue: Chapter does not comply with state unemployment requirements.

Criteria: Section H, Payroll, of the FMS fiscal management policies and procedures stipulates that the Chapter shall also participate in the State Unemployment Compensation Act Fund by submitting the required reports and applicable contributions to the applicable state agency on a quarterly basis.

Condition: Although the Chapter paid wages totaling \$28,800 for the audit period, no reports and payments were remitted to the Arizona Department of Economic Security (DES).

Effect: Based on the tax rate of 2%, the Chapter may owe a tax liability of approximately \$600 to DES. In addition, the Chapter will likely be penalized for delinquent reports.

Cause: Since the former Chapter staff was unfamiliar with the state's remittance process, the reports and payments were overlooked. This discrepancy was not detected since the Chapter Officials did not monitor the activities of the administration.

Recommendation(s):

- 1) The Chapter should obtain proper training from DES to determine which employees qualify for unemployment compensation.
- 2) Once trained, the Chapter Administration should remit applicable reports and payments to DES.
- 3) The Chapter Officials should review the financial statements to make sure all applicable taxes are promptly paid by the administration.

Issue: Travel documents are not properly signed by travelers and/or approvers.

Criteria: Section I, Travel policies and control procedures, of the FMS fiscal management policies and procedures requires signatures on travel documents to indicate proper review and approval.

Condition: Travel documents for 17% of the approximately \$12,000 total travel expenses lacked signatures. The Chapter administration did not obtain appropriate signatures for all travel documents.

Effect: In the absence of signatures, the Chapter cannot justify \$2,000 in travel expenses. The missing signatures mean that Chapter travel was not properly authorized or that subsequent travel expense reimbursements were not properly approved.

Cause: The Chapter Officials did not thoroughly review travel documents for required signatures before approving travel requests or expense reimbursements.

- Recommendation(s):
- 1) The Chapter Administration should obtain all necessary signatures on travel documents prior to processing disbursements for advances or reimbursements.
 - 2) The Chapter Officials should make sure all signatures are on the travel documents before co-signing Chapter checks for travel advances or reimbursements.

Issue: Chapter has not adopted the standard FMS manual.

Criteria: LGA requires the Navajo Nation Chapters to adopt a five management system policies and procedures manual to govern daily operations and to ensure accountability of all Chapter assets and resources.

Condition: Although a standard FMS manual was provided by the Navajo Nation Department of Justice in 2010, the Oak Springs Chapter has yet to formally adopt the manual.

Effect: Without policies and procedures, there is a potential risk for abuse or fraud to occur with Chapter funds.

Cause: The Chapter Officials have not made it a priority to have the standard manual adopted by the Chapter membership via a resolution.

- Recommendation(s):
- 1) The Chapter should make it a priority to obtain community approval for the standard FMS manual.
 - 2) The Chapter administration and officials should become familiar with the policies and procedures for all five areas of the FMS manual and work together to implement the policies and procedures.

CONCLUSION

Each year, the Oak Springs Chapter receives annual appropriations to fund direct services to its local community members. To ensure these direct services are provided in a timely and appropriate manner, the Chapter is required to administer the funds in accordance with established guidelines, policies and procedures. In addition, an adequate internal control structure ensures the Chapter is meeting its objectives in providing direct services.

Our review of the Oak Springs Chapter expenditures and operations has revealed deficiencies in providing direct services to the chapter membership. Therefore, objectives for these direct services were not fully met which indicates that the needs of community members were not likely addressed by the Chapter.

CLIENT RESPONSE