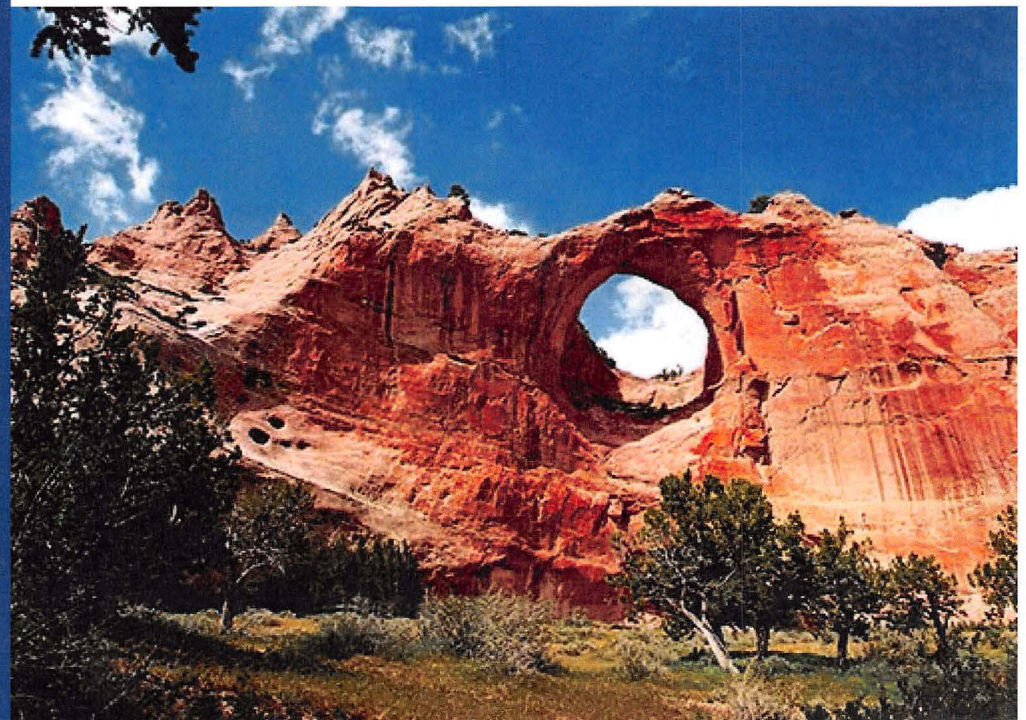


**OFFICE OF THE AUDITOR GENERAL**

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**The Navajo Nation**

**A Follow-Up Review  
of the  
Teec Nos Pos Chapter  
Corrective Action Plan Implementation**



**Report No. 15-06  
December 2014**

Performed by:  
Stacy Manuelito, Associate Auditor  
Alfreda Lee, Senior Auditor



December 17, 2014

Alfred L. Jim, President  
**TEEC NOS POS CHAPTER**  
P.O. Box 1106  
Teec Nos Pos, AZ 86514

Dear Mr. Jim:


The Office of the Auditor General herewith transmits Audit Report No. 15-06, a Follow-Up Review of the Teec Nos Pos 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 Teec Nos Pos Chapter corrective action plan.
- To identify the barrier(s), if any, that hindered implementation efforts.

**REVIEW RESULTS** - Our follow-up review found that the corrective actions to strengthen internal controls have not been implemented by the Teec Nos Pos Chapter. As such, the Teec Nos Pos Chapter has not made improvements needed to ensure proper accountability of Chapter assets and resources. Therefore, the Office of Auditor General recommends sanctions be imposed on the Teec Nos Pos Chapter and officials in accordance with 12 N.N.C., sections 9(B) and 9(C) for failure to fully implement the corrective action plan.

If you have any questions, please call our office at (928) 871-6303.

Sincerely,

  
for Elizabeth Begay, CIA, CFE  
Auditor General

xc: Arnold L. Bitah, Vice-President  
Verma Y. Francisco, Secretary/Treasurer  
VACANT, Community Service Coordinator  
Kenneth Maryboy, Council Delegate  
**TEEC NOS POS CHAPTER**  
Leonard Chee, Division Director  
**DIVISION OF COMMUNITY DEVELOPMENT**  
Chrono

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## **INTRODUCTION AND BACKGROUND**

The Navajo Nation Office of the Auditor General conducted a follow-up review on the Teec Nos Pos Chapter corrective action plan implementation in accordance with 12 Navajo Nation Code (N.N.C.) § 7. The follow-up review was to determine whether the Teec Nos Pos Chapter implemented its corrective action plan to resolve the findings presented in audit report no. 11-02.

A special review of the Teec Nos Pos Chapter was conducted in 2010, and the Auditor General issued audit report no. 11-02. The audit report and the corrective action plan developed by the Teec Nos Pos Chapter were approved by the Budget and Finance Committee on December 21, 2010, per resolution no. BFD-47-10. With Budget and Finance Committee approval, the Teec Nos Pos 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 Teec Nos Pos Chapter corrective action plan.
- To identify the barrier(s), if any, that hindered implementation efforts.

The follow-up review specifically focused on the corrective action plan. In meeting the objectives, the Office of the Auditor General reviewed the Teec Nos Pos Chapter's records for the six-month period of October 2013 to March 2014. In addition to reviewing Chapter records, the Office of the Auditor General 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 Teec Nos Pos 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 unrecorded cash receipts and the risk of undeposited revenue.**

The initial audit found that the Chapter did not consistently issue cash receipt tickets and did not summarize cash activities in a cash receipts journal. Review of fiscal year 2008 bank statements found the Chapter deposited \$5,218, but the Chapter could not provide cash receipts tickets or a cash receipt journal to document the cash receipt activities. Review of fiscal year 2009 found the Chapter deposited \$8,052 but only provided four of twelve months of cash receipts tickets and did not have the corresponding cash receipts journal. Furthermore, four months into fiscal year 2010, the Chapter deposited \$3,446 but could not provide cash receipt tickets or a cash receipts journal to support the deposits.

**Corrective Actions:**

1. Community Service Coordinator will ensure that a cash receipts journal is maintained with all cash receipts recorded on numbered cash receipt tickets, summarized in a cash receipts journal, and deposited intact into the Chapter bank account.
2. Community Service Coordinator will reconcile the cash receipt tickets and cash receipt journal to actual cash and to the bank reconciliation statement before deposit.
3. Secretary/Treasurer will monitor and ensure the cash receipts process has a segregation of duties between the Community Service Coordinator and Office Specialist.

**Follow-up results:**

The Chapter has not fully implemented the corrective actions. Of the 75 cash receipts reviewed and posted in MIP, a computerized accounting system that automatically generates financial statements, 31 (or 41%) did not reconcile to the actual cash receipt tickets. There were unrecorded cash receipts of \$1,348 and undeposited cash receipts of \$796 within the review period. We found \$207 was not deposited but expended on Christmas items, travel reimbursement, and Chapter supplies, and the remaining \$589 was expended for unknown expenditures.

Overall, there is no assurance that all revenues were deposited into the bank account. Additionally, the Accounts Maintenance Specialist had sole custody over the cash receipt activities by serving as the cash custodian and depositor. There was no oversight by the Secretary/Treasurer. This lack of segregation of duties does not ensure that proper checks and balances are in place for the management of the cash receipts.

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

The initial audit found deficiencies over the disbursements of Chapter funds. The Chapter staff did not prepare purchase requisitions or obtain quotations prior to purchasing goods or services. Also, upon receiving goods, the Chapter staff did not prepare receiving reports to ensure that all goods were delivered and complete. Additionally, the former and current

Chapter staff did not ensure that travelers had complete and approved travel authorizations before commencing travel. The Chapter staff collected reimbursements although trip reports, mileage reports, and lodging receipts were not submitted.

**Corrective Actions:**

1. Community Service Coordinator will prepare purchase requisitions, obtain approval before purchasing good and services, and comply with Navajo Nation Procurement Rules and Regulations.
2. Community Service Coordinator will ensure that quotes, which are consistent with approved Chapter budget, are obtained for all goods and services prior to preparing purchase requisitions. Also, the Community Service Coordinator will utilize receiving reports for all goods received.
3. All travel authorizations will have prior approval before commencing travel, and all trip expense forms will comply with the Navajo Nation Travel Policies and Procedures handbook.
4. All supporting documents will be attached and remitted upon completion of travel. No travel reimbursements will be approved without these supporting documents which prove travel was reasonable and necessary.

**Follow-up results:**

The Chapter has not fully implemented the corrective actions. A sample of 27 operating expenditures was reviewed for the six-month period of October 2013 to March 2014 and we found:

- 12 did not have the required three quotes.
- 8 did not have receiving reports to verify that goods and/or services were complete and received.
- 9 did not have appropriate documentation such as fund approval forms and invoices.
- 7 were not approved for payment by an authorized individual.
- 18 purchase requisitions were not used.

In addition, a sample of 11 travel expenditures was reviewed and we found:

- 10 travel authorization forms did not have an authorization signature.
- 10 were not supported by required documents.
- 10 had incorrect mileage and per diem rate calculations.

Overall, the Chapter was also inconsistent in complying with the Navajo Nation Procurement Policies and Procedures as well as the Navajo Nation Travel Policies and Procedures.

**Issue 3: Chapter funds were expended without a community-approved budget which led to unauthorized expenditures.**

The initial audit found that the Chapter did not have an approved budget before expending funds. The carryover, operating, and supplemental budget were not consistently presented and approved by the community membership in the fiscal years 2008 and 2009.

**Corrective Actions:**

1. Chapter will ensure all budgets are presented to the Chapter for adoption before expending funds including all appropriations and carryover amounts.
2. Chapter will ensure all appropriations are, presented to the Chapter membership utilizing the Office of Management and Budget forms, and approved via resolution.

**Follow-up results:**

The Chapter has not fully implemented the corrective actions. The Chapter had no resolution to approve the operating budget and internally-generated revenues for fiscal year 2014. Further, there was no detailed carryover budget from fiscal year 2013 that was approved by the community members via resolution. Lacking community-approved budgets, all \$104,647 expenditures within the audit scope were deemed unauthorized disbursements of Chapter funds.

**Issue 4: Community Services Coordinator was paid twice for performing the same tasks.**

The initial audit found that the Community Service Coordinator was under contract with the Chapter from June 1, 2009, through September 1, 2009, to write five proposals for \$5,000. The Community Service Coordinator was also hired, beginning June 1, 2009, as a temporary Public Employment Program employee to work as a Grant Writer. This is the same date her contract began with the Chapter. The Community Service Coordinator acknowledged that her duties and responsibilities as a Public Employment Program employee to write proposals was the same as her scope of work as a contractor. She was paid \$3,000 on June 5, 2009, for services rendered under the contract and was paid as a temporary employee in the amount of \$2,380 for completing the same task.

**Corrective Actions:**

1. Chapter will ensure all consultant work planned in the fiscal year is in the approved Chapter budgets.
2. Chapter will ensure all consultant work/contracts are processed in compliance with the Navajo Nation Procurement Rules and Regulations, pertinent Navajo Nation Laws, and Chapter Five Management System.

**Follow-up results:**

These corrective actions were deemed not implemented due to insufficient activity to verify implementation. Currently, the Chapter has no Community Service Coordinator and there were no consultant contracts during the audit scope.

**Issue 5: Lack of accountability in housing related expenditures.**

The initial audit found the Chapter expended approximately \$161,000 from its various Chapter funds to assist 60 housing recipients with labor and material. Proper documentation, such as housing applications, income verification, home site leases, and voter registration, were not submitted. There is no assurance that the Chapter was prudent in awarding housing related assistance. Furthermore, the Chapter could not provide vendor invoices for housing materials purchased.

**Corrective Actions:**

1. Chapter will obtain all required documentation for housing assistance requests before disbursing funds.
2. Chapter will comply with Navajo Nation Procurement Policies and Procedures.
3. Chapter will require applicants' documents to be maintained on file.
4. Chapter will develop a receiving report showing housing materials are delivered to the housing assistance recipient who also signs upon delivery.
5. Chapter will prepare a project close-out report that includes pictures of before and after the work is completed for all housing assistance projects.

**Follow-up results:**

These corrective actions were deemed not implemented due to insufficient activity to verify

implementation. The Chapter meeting minutes indicated only one housing assistance recipient in the audit scope.

**Issue 6: The Chapter property/equipment is not properly accounted for and safeguarded.**

The initial audit found the Chapter did not document its property and equipment to ensure it was accounted for. A property inventory list was not prepared to document information such as the identification number, description of property, and other relevant data. Furthermore, some property, such as a laptop and a Chapter truck, were stored off the Chapter premises.

**Corrective Actions:**

1. Chapter will prepare a property inventory to account for all of its equipment and property.
2. Chapter will ensure all property/equipment are tagged with identification numbers, insured, periodically inventoried, accounted for in applicable accounting ledgers, and reported in the financial statements.
3. Chapter will ensure that all property/equipment are safeguarded on Chapter premises.

**Follow-up results:**

The Chapter has not fully implemented the corrective actions. The Chapter officials and Chapter staff acknowledged that the Chapter property/equipment has not been inventoried, insured, tagged, and properly safeguarded.



## FINDING II

### Chapter is Not in Compliance with Navajo Nation Laws, Rules and Regulations

**Issue 1: The Chapter hired contractor without competitive bidding.**

The initial audit found that the Chapter executed two contracts with two different service providers. One contract was to develop and complete the Chapter's Five Management System manual for \$10,000. The other contract was to develop five proposals for the Chapter with the current Community Service Coordinator at \$5,000. The Chapter did not follow the Local Governance Act and Navajo Nation Procurement Rules and Regulations in selecting its contractors. The Chapter did not issue a request for proposal. Furthermore, there was no evidence of public advertisement or bidding before hiring the contractors.

**Corrective Actions:**

1. Chapter will ensure all consultant work planned in the fiscal year is in the approved Chapter budgets.
2. Chapter will ensure all consultant work/contracts are processed in compliance with the Navajo Nation Procurement Rules and Regulations, pertinent Navajo Nation Law, and Chapter Five Management System.

**Follow-up results:**

These corrective actions were deemed not implemented due to insufficient activity to verify implementation. The Chapter did not enter into any consultant contracts during the audit scope.

**Issue 2: \$24,113 unauthorized additional stipends were paid to former and current Chapter officials.**

The initial audit found that the Chapter violated 26 N.N.C § 1002 (C) (1) in expending Chapter funds to compensate Chapter officials and the Grazing Officer additional unauthorized stipends. Chapter officials and the Grazing Officer received approximately \$24,113 over the Navajo Nation approved budget. The 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. Additionally, the Chapter did not have all meeting minutes on file to support the stipend payments.

**Corrective Actions:**

1. Chapter will comply with the provision of Local Governance Act, Section 1002, limiting their compensation based on approved Navajo Nation budget for the stipends of Chapter officials and the Grazing Officer. Section 1002 states that Chapter officials shall be compensated for only the number of meetings provided for in the Navajo Nation approved budget. It is nonetheless the obligation of Chapter officials to be present at all Chapter meetings.
2. Secretary/Treasurer will ensure meeting minutes are submitted with Chapter administration.

**Follow-up results:**

The Chapter has not fully implemented the corrective actions. A sample of 20 stipend payments was reviewed and payments of \$2,985 did not have approved claim forms. Overall, the Chapter did not fully comply with the provisions of the Local Governance Act.

**Issue 3: The Chapter is not in compliance with the Internal Revenue Service over payroll taxes.**

The initial audit found that the Chapter was not in compliance with Internal Revenue Service (IRS) regulations for reporting payroll tax. In fiscal year 2008, the Chapter paid \$15,470 to the IRS for unpaid payroll taxes. In fiscal year 2009, the Chapter miscalculated the payroll taxes due, resulting in an overpayment of \$3,639 to the IRS. The Chapter could not provide an accurate payroll journal to support the taxable wages reported to the IRS.

**Corrective Actions:**

1. All payroll administration will be managed consistent with the Teec Nos Pos Chapter Public Employment Program Policies and Procedures.
2. Payroll journals will be accurately maintained.
3. Individual earnings statements will be maintained.
4. On a quarterly basis, IRS Form 941 will be processed and a deposit will be made.
5. All other payroll tax liabilities will be paid in compliance with applicable laws.

**Follow-up results:**

The Chapter has not fully implemented the corrective actions. Payroll expenditures for two pay periods were reviewed and found the following:

- 2 pay periods did not have sign-in sheets to compare to timesheets and the timesheets were not approved.
- 1 pay period had a timesheet calculated incorrectly and did not have employee earnings statements for all employees.

In addition, personnel files for seven temporary workers hired by the Chapter were reviewed and employment documents such as Personnel Action Forms, IRS Form W-4, and Arizona Employee Hire Forms were not found on file.

Lastly, one quarterly IRS report was reviewed and although the report was remitted and taxes paid by the due date, the report was not signed, dated, reviewed, and approved by a Chapter official.

**Issue 4: Stipend payments and consultant fees were not reported to the IRS.**

The initial audit found that stipends of Chapter officials, the Grazing Official, and committee members paid for calendar years 2008 and 2009 were not accurately reported to the IRS. The former Chapter President and Grazing Official stipend payments of \$14,706 and \$1,170, respectively, in calendar year 2008, were not reported on IRS Form W-2. The Chapter did not issue IRS Form 1099-Misc to a consultant who was paid \$10,000.

**Corrective Actions:**

1. The Community Service Coordinator will reconcile the prior tax year reports and payments.
2. Chapter will accurately report to the IRS stipends and consultant payments.

**Follow-up results:**

The Chapter has not fully implemented the corrective actions. Chapter officials' stipends totaling \$1,500 for the first quarter 2014 were not reported on IRS Form 941. Also, there were no IRS Form W-2's on file for the Chapter officials.

**Issue 5: Financial reports were not provided to the community membership.**

The initial audit found that the Chapter did not provide financial reports to the community membership. In fiscal year 2008, three of four months lacked meeting minutes to verify that the Secretary/Treasurer was providing financial reports to the community membership. In fiscal years 2009 and 2010, five months of regular Chapter meetings lacked meeting minutes. There was no evidence to show that the Secretary/Treasurer provided financial reports on the Chapter finances during the regular Chapter meetings.

**Corrective Actions:**

1. Community Service Coordinator will ensure the Office Specialist completes all bookkeeping to identify all fund balances at the end of each accounting cycle and submit to Community Service Coordinator.
2. Community Service Coordinator will prepare financial reports each month and submit to the Secretary/Treasurer prior to the regular Chapter meetings.
3. Secretary/Treasurer will document the reporting of financial reports in the Chapter meeting minutes and attach the financial reports.
4. All financial reports will be submitted to Local Governance Support Center for monitoring and review.

**Follow-up results:**

The Chapter has not fully implemented the corrective actions. The Chapter officials and Chapter staff acknowledged financial reports were not provided to the community membership.

## FINDING III

### Chapter Accounting System Needs Improvements

**Issue 1: Fund/subsidiary ledgers are not properly maintained.**

The initial audit found that fund/subsidiary ledgers had deficit balances, posting errors, and duplicate ledgers. In addition, there were inconsistencies in the account codes used to post expenditures in the fund/subsidiary ledgers.

**Corrective Actions:**

1. Chapter will develop a chart of accounts and use those codes to post all transactions to the fund/subsidiary ledgers.
2. Community Service Coordinator will reconcile the fund/subsidiary ledgers to ensure all expenditures are properly classified and posted.
3. Office Specialist will maintain the fund/subsidiary ledgers on a routine basis.
4. Secretary/Treasurer will monitor fund/subsidiary ledgers on a monthly basis.

**Follow-up results:**

The Chapter has not fully implemented the corrective actions. We found deficit balances, posting errors, misclassification of cash receipts and expenditures, and unrecorded revenue resulting in unreliable financial statements. There was no monitoring by the Secretary/Treasurer to check whether revenues and expenditures were classified and posted correctly.

**Issue 2: Bank account lacks proper oversight by Community Service Coordinator.**

The initial audit found a lack of segregation of duties in the management of bank account activities. The Office Specialist was performing the bank reconciliation. However, the Community Service Coordinator did not review the bank reconciliation for accuracy and reliability.

**Corrective Actions:**

1. Community Service Coordinator will review the bank reconciliation on a monthly basis to ensure accuracy.
2. Secretary/Treasurer will review and monitor bank reconciliations monthly to ensure segregation of duties.

**Follow-up results:**

The Chapter has not fully implemented the corrective actions. The Account Maintenance Specialist performed the bank reconciliations incorrectly because she did not reconcile the Chapter book balances against bank statement balances. In addition, the Chapter does not have all voided, spoiled and cancelled checks on file for reconciliation purposes. Further, there were outstanding checks that have not cleared the bank since 2013 and the deposits in transit at the end of the review period did not reconcile to the Balance Sheet. Lastly, the Secretary/Treasurer did not review the bank reconciliations for accuracy.

**Issue 3: The Chapter financial statements are not accurate and are deemed unreliable.**

The initial audit found the three basic financial statements were not consistently prepared each month by the Chapter administration. In fiscal year 2008, the Chapter prepared only the Statement of Revenue and Expenditure. Then, in fiscal year 2009, the Statement of Revenue and Expenditure and Balance Sheet were not prepared. Additionally, financial statements

were unreliable and could not be verified to the source accounting records such as fund ledgers, budgets, and the cash receipts journal. Furthermore, the reconciled check register balance comparison to the fund ledger and financial statements showed a variance.

**Corrective Actions:**

1. Community Service Coordinator and Office Specialist will attend and complete all training scheduled by Local Governance Support Center.
2. Community Service Coordinator will attend all Community Service Coordinator/Chapter Manager monthly business meetings to train on tools used for Chapter operations.
3. Local Governance Support Center will prepare a one-on-one or group-training plan specifically for preparations of financial statements and the Community Service Coordinator will attend and complete all training.
4. Community Service Coordinator will ensure that all financial reports are accurately prepared and submitted to the Secretary/Treasurer prior to the Chapter meetings.
5. Secretary/Treasurer will present the financial reports to the Chapter membership during the regular Chapter meetings and attach the financial reports to the minutes.

**Follow-up results:**

The Chapter has not fully implemented the corrective actions. With the MIP accounting software, the Chapter can readily generate financial statements based on the data entered into the system. However, there were posting errors with the budget, cash receipts journal, and expenditure journal. Therefore some of the data entered into the MIP accounting system was inaccurate resulting in unreliable financial statements. Also, the Accounts Maintenance Specialist solely prepared the financial statements since there was no Community Services Coordinator and there was no monitoring from the Secretary/Treasurer to ensure accurate financial statements. Lastly, the Chapter meeting minutes showed no indication that financial statements were reported by the Secretary/Treasurer to the community membership.

**Issue 4: There is a lack of oversight by the Chapter officials.**

The initial audit found the Community Service Coordinator lacked knowledge of the financial activities of the Chapter. The former and current Chapter staff did not maintain accurate Chapter records. Some accounts showed a deficit and records of Chapter assets were not maintained. In all, the Chapter did not abide by its policies and procedures as outlined in its Five Management System. There was a lack of segregation of duties in maintaining the accounting system of the Chapter. These inadequacies showed lack of oversight by the Chapter officials.

**Corrective Actions:**

1. Local Governance Support Center will schedule and conduct training to inform the Chapter officials of their supervisory and monitoring responsibilities.
2. Chapter officials will attend all training scheduled by Local Governance Support Center. The supervising official will attend all leadership and supervisory training.
3. Secretary/Treasurer will attend all financial training.

**Follow-up results:**

The Chapter has not fully implemented the corrective actions. The Chapter officials acknowledged that they have not provided adequate oversight activities. In addition, based on the results of the follow-up review, the Chapter continues to lack adequate internal controls over revenues and expenditures, there is still noncompliance with Navajo Nation laws, rules, and regulations, and the Chapter accounting system still needs improvement.



## CONCLUSION

Overall, the corrective action plan has not been fully implemented by Teec Nos Pos Chapter to resolve the audit issues reported in the initial audit. Of the 15 audit issues reported, the Chapter did not resolve 12 audit issues and three were deemed unresolved at this time due to lack of activity. Therefore, the deficiencies presented in the initial audit report still exist.

Title 12, Navajo Nation Code (N.N.C.) Section 8 imposes upon the Teec Nos Pos Chapter the duty to implement the corrective action plan according to the terms of the plan. Since the corrective measures were not implemented, Teec Nos Pos Chapter did not demonstrate sufficient improvements to resolve the audit issues. Title 12 N.N.C. Sections 9(b) and 9(c) directs the Office of the Auditor General to recommend sanctions against the Teec Nos Pos Chapter and Chapter Officials for failure to fully implement the corrective action plan. Accordingly, the Office of the Auditor General recommends sanctions be imposed on the Teec Nos Pos Chapter and Chapter Officials in accordance with 12 N.N.C. Section 9 (b) and 9(c) for failure to implement the corrective action plan.