

**OFFICE OF THE AUDITOR GENERAL**

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**The Navajo Nation**

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



**Report No. 15-10  
January 2015**

Performed by:  
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January 15, 2015

Herman Begay, President  
**SAWMILL CHAPTER**  
P.O. Box 1786  
Ft. Defiance, AZ 86504

Dear Mr. Begay:

The Office of the Auditor General herewith transmits Audit Report No. 15-10, a Follow-up Review of the Sawmill 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 Sawmill Chapter corrective action plan.
- To identify the barrier(s), if any, that hindered implementation efforts.

**Review Results**


The Sawmill Chapter has not implemented the majority of corrective actions outlined in the corrective action plan and, as such, has not demonstrated improvements to ensure accountability and safeguarding of Chapter assets and resources. The Sawmill Chapter has not resolved 11 of 14 findings or issues from the last audit report, which shows that Five Management System policies and procedures were not implemented.

Cash receipts were not deposited timely and bank reconciliations are not reviewed. Supporting documentation to verify goods and services were received were not obtained or reviewed. Financial statements and the records that support them are inaccurate. Budgets presented to members for approval are misleading as they include projected revenues that are inaccurate.

More importantly, the neediest members of the community may not receive financial assistance and students and veterans who receive assistance may not be eligible. The Chapter does not report on the status of housing assistance. Additionally, Chapter Officials do not monitor Chapter activities as defined by the Local Governance Act.

Therefore, the Office of the Auditor General does not recommend that sanctions be lifted on the Sawmill Chapter and officials in accordance with 12 N.N.C., Sections 9(B) and 9(C).

Sincerely,

  
Elizabeth Begay, CIA, CFE  
Auditor General

xc: Franklin Francisco, Vice-President  
Laurita Begay, Secretary/Treasurer  
Calvin Kirk, Community Service Coordinator  
Benjamin L. Bennett, Council Delegate  
**SAWMILL CHAPTER**  
Leonard Chee, Division Director  
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## **INTRODUCTION AND BACKGROUND**

The Navajo Nation Office of the Auditor General conducted a supplemental follow-up review on the Sawmill Chapter corrective action plan implementation in accordance with 12 Navajo Nation Code (N.N.C.) Section 7. The supplemental follow-up review was to determine whether the Sawmill Chapter implemented its corrective action plan to resolve the findings presented in Audit Report no. 00-03.

With the initial Audit Report no. 00-03, the Sawmill Chapter was mandated to develop a corrective action plan pursuant to 12 Navajo Nation Code Section 7(C). The audit report and the corrective action plan developed by the Sawmill Chapter were approved by the Budget and Finance Committee on May 09, 2000, per resolution no. BFMY-45-00.

Pursuant to 12 N.N.C. Section 7(G), the Office of the Auditor General conducted a 12-month corrective action plan follow-up review of the Sawmill Chapter in 2003 and issued a report March 26, 2003, on the status of the plan. This follow-up review found that the Sawmill Chapter did not fully implement its corrective action plan. Consequently, the Auditor General recommended sanctions be imposed on the Sawmill Chapter and its officials in accordance with 12 N.N.C. Sections 9(B) and 9(C). The Navajo Nation Council Budget and Finance Committee approved the sanctions on October 04, 2003, per resolution no. BFO-147-03.

### **Objectives, Scope, and Methodology**

In accordance with 12 N.N.C. Section 7(G), the following objectives were established for the supplemental 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 January 01, 2014, to June 30, 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 the Sawmill Chapter for their cooperation and assistance throughout this review.

## REVIEW RESULTS

**Finding 1: The Chapter did not record all revenue in a cash receipts journal.**

The initial audit found that the Chapter did not have a cash receipts journal, and there was no reconciliation of the cash to the journal prior to the deposits. A comparison of the recorded hay sales to the bank account deposits found that cash receipts totaling \$1,449 were not deposited into the Chapter bank account.

**Corrective Actions:**

1. The Chapter will establish a cash receipts journal.
2. The Chapter will use cash receipt tickets for all transactions.
3. The Community Services Coordinator will review records to ensure procedures are followed consistently.

**Follow-up results:**

The Chapter did not fully implement the corrective actions. Although the Chapter recorded cash receipts tickets to the cash receipts journal, the Community Services Coordinator did not reconcile cash receipt records prior to deposit to ensure that receipts were deposited intact and in a timely manner. As a result, during the six-month period from January to June 2014, \$1,284 of \$4,666 total cash receipts were not deposited until August 2014.

**Finding 2: Bank statement reconciliations are incomplete.**

The initial audit found that bank reconciliations are incomplete. The Chapter uses the cash basis of accounting and could not maintain an accurate check register balance to reconcile against the bank statements.

**Corrective Actions:**

1. The Accounts Maintenance Specialist will prepare the bank reconciliations on a monthly basis.
2. The Community Services Coordinator will review the bank statement reconciliations for accuracy.

**Follow-up results:**

The Chapter did not fully implement the corrective actions. The Accounts Maintenance Specialist prepared the bank reconciliations from January to June 2014, but the June 2014 bank balance did not reconcile to the balance sheet cash accounts. In preparing the bank reconciliation, the Accounts Maintenance Specialist did not include cash on hand of \$1,284 and a deposit in transit of a Navajo Nation appropriation of \$151,700 which were both reported on the balance sheet. These discrepancies were not detected because the Community Services Coordinator does not review the bank reconciliations.

**Finding 3: Expenditures incurred are not reviewed for propriety and, therefore, are inconsistent to guidelines, laws, and regulations.**

The initial audit found that check disbursements were not adequately supported and/or consistent with guidelines.

**Corrective Action:**

1. The Community Services Coordinator will be responsible for reviewing invoices to ensure that disbursements made are for the actual amounts owed and within the guidelines of the funds distributed.

**Follow-up results:**

The Chapter did not fully implement the corrective actions. Of 18 disbursements that were reviewed, 5 did not have invoices to justify the disbursements totaling \$2,552. Additionally, 8 disbursements did not have receiving reports to verify goods and services were actually received prior to payments totaling \$5,977. Overall, the Community Services Coordinator does not review invoices to ensure all disbursements are properly approved and supported with adequate documentation.

**Finding 4: There is a lack of separate accounting of each fund.**

The initial audit found that the Chapter did not establish fund ledgers for each fund. The Chapter then established fund ledgers using a manual type of accounting system, which resulted in fund ledgers that were determined inaccurate due to lack of timely posting of expenditures.

**Corrective Action:**

1. The Chapter will maintain the fund ledgers for accuracy.

**Follow-up results:**

The Chapter did not fully implement the corrective actions. The Chapter installed the MIP fund accounting software, which established fund ledgers to provide updated information on each Chapter fund. However, approximately 14 of the 17 Chapter funds had ledgers with variances due to posting errors. Therefore, the overall fund balance reported on the balance sheet as of June 30, 2014 was deemed unreliable.

**Finding 5: The Chapter approved budgets were not monitored.**

The initial audit found that the Chapter exceeded budgeted amounts and did not monitor its approved budgets to ensure availability of funds.

**Corrective Actions:**

1. Chapter staff will monitor the budgets for compliance with community-approved budgets.
2. The Community Services Coordinator will ensure compliance with funding restrictions, ensure the availability of funds before expenditures are made, and make budget transfers when needed.

**Follow-up results:**

The Chapter did not fully implement the corrective actions. Budget deficits were found with the Chapter funds which are an indication that Chapter staff did not monitor the budgets. In one instance, the Chapter Stipend Fund has been carrying over a fund deficit since 2011 and as of June 30, 2014, the deficit was \$7,445. In all likelihood, other Chapter funds were used to pay stipends to the Chapter officials.

Furthermore, community members approved budgets for current year appropriations including supplemental funding totaling \$431,317. However, the Chapter only received \$399,000 as of June 2014. The variance is sanctioned funds withheld by the central government. Contrary to budget practices, the Chapter budgeted funds that were not available for expenditure.

**Finding 6: There was a lack of contracting policies and procedures for professional services.**

The initial audit found that there were no policies and procedures for procurement of professional services. The Chapter then established and adopted policies and procedures for procuring professional services contracts. However, no professional services were procured.

**Corrective Action:**

1. The Chapter will follow the policies and procedures for professional services contracts.

**Follow-up results:**

These corrective actions were deemed not implemented because there was no activity to verify implementation. During the audit scope, the Chapter did not procure any professional services via contract.

**Finding 7: The Chapter did not have policies and procedures for assisting and awarding financial assistance from its funds.**

The initial audit found that the Chapter had not established appropriate policies and procedures for awarding financial assistance from its Housing Discretionary and General funds. Therefore, there was no assurance that the Chapter funds were awarded equitably among eligible community members.

**Corrective Action:**

1. The Chapter will develop and maintain policies and procedures for assisting and awarding financial assistance equitably.

**Follow-up results:**

The Chapter did not fully implement the corrective actions. Although the Chapter developed policies and procedures for financial assistance, these policies and procedures were not properly implemented.

- **Housing Discretionary Fund:** These policies do not address a ranking system or a housing selection committee that would ensure applicants are evaluated and their needs prioritized in a fair manner. Rather, the Chapter gives the Chapter Vice-President complete discretion in selecting the housing recipients, and determining the type and amount of assistance. There are no controls to mitigate biased opinions or favoritism.
- **Student Financial Assistance:** To be eligible, these policies require students to maintain a GPA of 2.5 or higher. Therefore, the policies require transcripts as a necessary supporting documentation. For the audit scope, assistance for 5 recipients totaling \$1,800 were evaluated and all recipients lacked the required transcripts. Therefore, these students may have been ineligible to receive student financial assistance.
- **Veterans Financial Assistance:** To be eligible, veterans are required to submit a DD-214 to show honorable discharge from military service. For the audit scope, assistance for 2 veterans totaling \$150 were evaluated and both recipients lacked the required DD-214. Therefore, these veterans may have been ineligible to receive financial assistance.

**Finding 8: The Chapter used its cash revenues to pay for small petty cash expenditures.**

The previous audit found that the Chapter did not deposit revenue totaling \$1,917 and could not provide supporting documentation on the use of the undeposited revenue.

**Corrective Actions:**

1. The Chapter will prohibit use of revenue to pay for cash expenditures.
2. The Chapter will establish a petty cash fund on an imprest basis.

**Follow-up results:**

The Chapter implemented the corrective actions.

**Finding 9: The Chapter officials do not provide financial reports to the community, as required by the Local Governance Act.**

The initial audit found that financial reports were not being generated and that the Chapter's financial status was not disclosed monthly to the community members as required by law.

**Corrective Actions:**

1. The Chapter officials will provide reliable monthly financial reports at the Chapter meetings.
2. The Chapter will document the financial reports in the meeting minutes.

**Follow-up results:**

The Chapter has not fully implemented the corrective actions. Using the automated MIP accounting system, the Chapter is able to generate monthly financial statements. However, these statements were deemed unreliable due to incorrect reporting of deferred revenues and fixed assets. Specifically, the Chapter financial statements do not accurately disclose the total funds withheld by the central government as a result of sanctions. Nonetheless, the financial statements were presented at Chapter meetings as noted in the meeting minutes. However, with unreliable reports, the Chapter membership cannot make informed financial decisions.

**Finding 10: Policies and procedures to ensure financial reporting requirements for grants and funds have not been established and adhered to.**

The initial audit found that the Chapter did not prepare project completion reports and quarterly expenditure reports for its Housing Discretionary Fund.

**Corrective Action:**

1. The Chapter will comply with the Five Management System Policies and Procedures regarding financial reporting requirements.

**Follow-up results:**

The Chapter has not fully implemented the corrective actions. The Chapter Housing Discretionary Policies and Procedures require the Community Services Coordinator to prepare a statement of work, performance report, and expenditure report to provide adequate disclosure of the Chapter's housing activities. Although, approximately \$5,000 was expended for housing assistance during the audit scope, the Community Services Coordinator did not prepare these required reports. Therefore, the Community Services Coordinator cannot provide assurance that housing resources were used as intended.

**Finding 11: The Chapter does not conduct annual inventories of its property and equipment.**

The initial audit found that the Chapter staff did not perform annual inventories of the Chapter's property and equipment in order to detect loss, if any, of property and equipment.

**Corrective Action:**

1. The Chapter will perform an annual inventory of property and equipment.

**Follow-up results:**

The Chapter implemented the corrective actions.

**Finding 12: Community-approved policy and procedures regarding inventory records were not being followed.**

The initial audit found that the Chapter was not fully administering its Property and Equipment Inventory Policies and Procedures. Inventory records did not include buildings, costs, acquisition dates, identification numbers, and item descriptions. There was no method of classifying which items were to be capitalized and which were to be expensed.



**Corrective Actions:**

1. The Chapter will revise its Property and Equipment Inventory Policies and Procedures to classify each item valued at \$500 as capitalized property or fixed asset.
2. The Chapter will record the costs/values, acquisition dates, identification numbers, and descriptions in the property and equipment inventory.
3. The Chapter will input values of the fixed assets into the accounting system so it will be disclosed on the financial statements.

**Follow-up results:**

The Chapter is in the process of implementing the corrective action. The Chapter maintains an inventory of its property and equipment with pertinent information, and uses \$1,000 as the threshold for classifying its fixed assets. However, the values of the fixed assets have not been entered into the MIP accounting system for proper disclosure in the financial statements.

**Finding 13: The Chapter has not implemented its Five Management System Policies and Procedures.**

The initial audit found that the Chapter adopted a Five Management System Policies and Procedures in 1999; however, the Chapter has yet to implement the policies and procedures.

**Corrective Actions:**

1. The Chapter will provide weekly trainings for its officials.
2. The Chapter will provide presentations to the community to implement the Five Management System Policies and Procedures to obtain Local Governance Act certification.

**Follow-up results:**

The Chapter has not fully implemented the corrective actions. The Chapter has not adopted the standard Five Management System Policies and Procedures promulgated by the Navajo Nation Department of Justice. In addition, the Chapter did not provide any documentation of weekly training for staff and officials or of presentations made to the community regarding the implementation of the Five Management System Policies and Procedures. Therefore, there is no assurance that the Five Management System Policies and Procedures are being adhered to in daily Chapter operations.

**Finding 14: The Chapter did not generate financial statements.**

The initial audit found that the Chapter did not generate financial statements. Afterwards, the Chapter started generating financial statements, but the reports were inaccurate and unreliable.

**Corrective Action:**

1. The Chapter will ensure financial statements comply with generally accepted governmental accounting principles, as required by the Local Governance Act.

**Follow-up results:**

The Chapter has not fully implemented the corrective actions. The Chapter uses the MIP fund accounting system to generate financial statements. The financial statements for the period ending June 30, 2014 were evaluated and deemed unreliable due to the following discrepancies:

- The Navajo Nation Office of the Controller reported the withheld sanctioned funds for the Chapter totaled \$352,648 as of June 30, 2014 but the Chapter's financial statement disclosed a sanctioned total of only \$139,622. Since the difference of \$213,026 was not reported, the financial statements understate the Chapter's assets and revenues.
- The value of fixed assets is not entered into the accounting system. Therefore, the

balance sheet understates the Chapter's assets by \$553,299.

- For fourteen (14) funds, the ending fund balances in the balance sheet were inconsistent with the respective available balances in the budget to actual report. The overall net variance was \$8,611.

## CONCLUSION

The Sawmill Chapter has not implemented a majority of the corrective actions outlined in the corrective action plan and, as such, has not demonstrated improvements to ensure accountability and safeguarding of Chapter assets and resources. The Sawmill Chapter has not resolved 11 of 14 findings from the last audit report, which shows that the Five Management System policies and procedures were not implemented. In the absence of any significant improvements, the Office of the Auditor General does not recommend that sanctions be lifted on the Sawmill Chapter and officials in accordance with 12 N.N.C., Sections 9(B) and 9(C).