

**OFFICE OF THE AUDITOR GENERAL**

---

**The Navajo Nation**

**A Special Review  
of the  
Dennehotso Chapter**

**Report No. 15-22  
May 2015**

**Performed by:  
Stacy Manuelito, Associate  
Auditor**





May 19, 2015

Frank Yazzie, Chapter President  
**DENNEHOTSO CHAPTER**  
P.O. Box 2301  
Dennehotso, Arizona 86535

Dear Mr. Yazzie:

The Office of the Auditor General herewith transmits Audit Report No. 15-22, A Special Review of the Dennehotso Chapter (Chapter). The Office of the Auditor General conducted the special review of the Chapter with the following objectives:

- Determine whether chapter funds were expended according to policies and procedures.
- Determine whether wages paid to chapter employees were supported with required documentation.
- Determine whether travel expenses incurred by chapter staff and officials benefitted the chapter.
- Determine whether the Chapter can account for its property.
- Determine whether the Chapter complies with Navajo Nation and State reporting requirements.


The scope for this review was for the 18-month period of October 1, 2012 to March 31, 2014.

### REVIEW RESULTS

- Finding I : Direct service funds were expended contrary to policies.  
Finding II : Over \$70,000 of compensation paid to chapter employees is questionable.  
Finding III : \$19,000 incurred for travel may not have benefitted the Chapter.  
Finding IV : Value of chapter fixed assets is unknown and therefore uninsurable against loss.  
Finding V : Chapter does not comply with Navajo Nation and State reporting requirements.

In addition to the audit findings, the report provides recommendations to improve management of the chapter finances and activities. If you have any questions about this report, please call our office at (928) 871-6303.

Sincerely,



Elizabeth Begay, CIA, CFE  
Auditor General

xc: Martha Littleman, Vice-President  
Nancy Tsosie, Secretary/Treasurer  
Carmelia Blackwater, Chapter Manager  
Nathaniel Brown, Council Delegate  
**DENNEHOTSO CHAPTER**  
Chrono

## TABLE OF CONTENTS

	<u>Pages</u>
<b>INTRODUCTION AND BACKGROUND</b> .....	1
<b>OBJECTIVE, SCOPE, METHODOLOGY</b> .....	2
<b>FINDING I: Direct service funds were expended contrary to policies</b> .....	3
Issue: Financial assistance was approved despite missing support documentation.....	3
Issue: \$4,500 in housing assistance may not have been used as intended by recipients.....	3
Issue: All 16 emergency fund disbursements (totaling about \$31,000) examined were unsupported and unjustified.....	4
<b>FINDING II: Over \$70,000 of compensation paid to chapter employees is           questionable</b> .....	4
Issue: \$68,000 wages paid may have been for hours not worked.....	4
Issue: Staff earned and used leave hours that were not due to them.....	5
Issue: Farm board stipends totaling about \$4,000 paid to the Chapter Manager could be duplicate compensation.....	6
<b>FINDING III: \$19,000 incurred for travel may not have benefitted the Chapter</b> ....	7
<b>FINDING IV: Value of chapter fixed assets is unknown and           therefore uninsurable against loss</b> .....	7
<b>FINDING V: Chapter does not comply with Navajo Nation and State reporting           requirements</b> .....	8
Issue: The Chapter's financial status is not disclosed to chapter membership.....	8
Issue: Chapter may owe a tax liability of about \$2,800 for state unemployment taxes.....	8
<b>CONCLUSION</b> .....	9
<b>CLIENT RESPONSE</b> .....	10

## INTRODUCTION AND BACKGROUND

The Office of the Auditor General has conducted a special review of Dennehotso Chapter (Chapter) for the 18-month period ending March 31, 2014. The special review was requested by the Chapter officials because of concerns over management of Chapter's finances. 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.

Dennehotso 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. In February 2012, Dennehotso Chapter was LGA-certified by the Resources and Development Committee of the Navajo Nation via resolution no. RDCF-14-12. As LGA-certified, Dennehotso Chapter is expected to uphold a higher standard over the management of the Chapter.

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

The Chapter also generates internal revenues from rentals, resale of goods, 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 Chapter's total resources available for the 18-month audit period ending March 31, 2014.

**Table 1**  
**Budget and actual expenditures for direct/indirect services for the**  
**18-month audit period ending March 31, 2014.**

Service Type	Category	Budget	Actual	Available	Percentage of Budget
Direct Services:	Student Assistance	\$ 32,607	\$ 27,792	\$ 4,815	15%
	Emergency	\$ 39,536	\$ 34,591	\$ 4,945	13%
	Social Services	\$ 20,120	\$ 11,863	\$ 8,257	41%
	Housing	\$ 63,508	\$ 31,666	\$ 31,842	50%
	Community Development	\$ 138,354	\$ 98,539	\$ 39,815	29%
	Temporary Employment	\$ 59,687	\$ 49,756	\$ 9,931	17%
	<i>Total- Direct Services:</i>	\$ 353,812	\$ 254,207	\$ 99,605	28%
	<i>Percent of Grand Total-Direct Services:</i>	<b>34%</b>	<b>33%</b>	<b>39%</b>	
Indirect Services:	Payroll	\$ 251,416	\$ 188,175	\$ 63,241	25%
	Stipends	\$ 125,109	\$ 89,975	\$ 35,134	28%
	Travel	\$ 23,927	\$ 38,383	\$ (14,456)	-
	Capitalized Expenditures	\$ 12,403	\$ 23,161	\$ (10,758)	-
	Operating	\$ 267,980	\$ 182,340	\$ 85,640	32%
	<i>Total- Indirect Services:</i>	\$ 680,835	\$ 522,034	\$ 158,801	23%
	<i>Percent of Grand Total-Indirect Services:</i>	<b>66%</b>	<b>67%</b>	<b>61%</b>	
	<b>GRAND TOTAL:</b>	<b>\$1,034,647</b>	<b>\$ 776,241</b>	<b>\$ 258,406</b>	

Source: Office of the Auditor General compilation of revenues and expenditures.

Of the \$1,034,647 total available resources, only \$254,207 (33%) was expended for direct services and \$522,034 (67%) for indirect services. This shows that the Chapter did not

provide direct services to community members. The Dennehotso Chapter has one primary checking account, and as of March 31, 2014, the account had an ending balance of \$258,406.

### **Objective, Scope, and Methodology**

The following objectives were established for this special review:

- Determine whether chapter funds were expended according to policies and procedures.
- Determine whether wages paid to chapter employees were supported with required documentation.
- Determine whether travel expenses incurred by chapter staff and officials benefitted the chapter.
- Determine whether the Chapter can account for its property.
- Determine whether the Chapter complies with Navajo Nation and State reporting requirements.

The scope for this review was for the 18-month period of October 1, 2012 to March 31, 2014.

In meeting the objectives, we interviewed chapter officials and the administration, 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 whether it is adequately safeguarded from loss.

### **Government Auditing Standards**

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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

## REVIEW RESULTS

### **Finding I: Direct service funds were expended contrary to policies.**

#### Issue: Financial assistance was approved despite missing support documentation.

**Criteria:** Section V of the Chapter Housing Policies and Procedures requires each applicant have the following documents to be eligible for housing assistance: a) application, b) proof of residence, c) Certificate of Indian Blood, d) voter registration, and e) three quotations for materials.

**Condition:** Nine housing recipients were selected for review to verify eligibility. However, the Chapter Manager was unable to provide the applications and other required documentation for all nine housing recipients. Despite missing documentation, all nine recipients were approved for housing assistance.

**Effect:** Nine ineligible housing applicants were approved for housing assistance.

**Cause:** Although a housing committee representative claimed they reviewed applications and other required documents when they approved the recipients, the Chapter Manager was unable to substantiate this claim with records.

- Recommendation(s):**
1. The Chapter Manager should only approve housing assistance for applicants that have all support documentation to show eligibility for assistance.
  2. The Chapter Manager should maintain all housing assistance support documentation on file as reviewed and approved by the housing committee.

#### Issue: \$4,500 in housing assistance may not have been used as intended by recipients.

**Criteria:** Section VII of the Chapter Housing Policies and Procedures requires chapter administrative staff to complete an assessment of approved housing assistance projects 30 days after assistance is issued to verify completion of the project.

**Condition:** Chapter administration did not perform follow-up assessments after assistance was given to make sure the recipients used the funds for their intended purpose.

**Effect:** There is a risk that housing needs went unmet because chapter assistance totaling \$4,500 was misspent or was used for other purposes.

**Cause:** The Chapter Manager did not schedule follow-up assessments to verify completion of housing projects.

- Recommendation(s):
1. The chapter staff should perform follow-up assessments after housing assistance is given to make sure recipients used the funds for their intended purpose.
  2. The Chapter Manager should schedule follow-up assessments to verify completion of housing projects.

Issue: All 16 emergency fund disbursements (totaling about \$31,000) examined were unsupported and unjustified.

Criteria: Section VI (E) of the Procurement Policies and Procedures requires the Chapter to only expend emergency funds based on the following criteria:

- a. Declaration of Emergency issued by the President.
- b. Completed community assessment and list of recipients receiving emergency fund commodities distributed free-of-cost.
- c. Provided relief services in order of priority.
- d. Community-approved budget is in place.

Condition: All 16 emergency fund disbursements (totaling about \$31,000) examined were unsupported and unjustified. There was no related community-wide emergency declared, no list of recipients of the emergency services , and no description of relief services provided.

Effect: The Chapter misspent \$31,000 of the emergency fund.

Cause: The Chapter Manager acknowledged that she was unaware of the established criteria for emergency fund expenditures, and the Chapter does not have an emergency response plan to offer guidance on administering relief services using emergency funds.

- Recommendation(s):
1. Chapter staff should ensure that emergency fund disbursements can be supported and justified by the established criteria.
  2. The Chapter Manager should become familiar with established criteria for emergency fund expenditures.
  3. The Chapter should develop an emergency response plan.

**Finding II: Over \$70,000 of compensation paid to chapter employees is questionable.**

Issue: \$68,000 wages paid may have been for hours not worked.

Criteria: Section VII (H) of the Fiscal Policies and Procedures requires the Chapter to establish a system to account for the use of accrued leave. In addition, employees are required to record their work hours on attendance sheets to be approved by their immediate supervisor. Furthermore, the attendance sheets are to be used to prepare the timesheet.

Condition: For the audit period, 73 payroll disbursements were reviewed to verify hours paid to staff were based on support documentation. The following was noted:

Discrepancies Noted	# of Exceptions	Percent
Hours on sign-in sheets did not reconcile to hours recorded on the master timesheet.	56 of 73	77%
Master timesheet hours did not reconcile to hours posted on the payroll journal.	29 of 73	40%
Recorded absences do not have an approved leave form.	52 of 60	87%
Master timesheet was not approved by an authorized individual.	29 of 73	40%
Leave hours used reported on the master timesheets do not reconcile with the leave report.	21 of 31	68%

Effect: Approximately \$68,000 was paid to chapter employees for hours they may not have actually worked and/or paid leave that was not authorized.

Cause: The Chapter Manager did not verify and reconcile applicable payroll records for accuracy prior to authorizing the processing of payroll.

- Recommendation(s):
1. The Chapter Manager should ensure all wages paid to staff are supported with required documentation.
  2. The Chapter Manager should verify and reconcile applicable payroll records for accuracy prior to authorizing the processing of payroll.

Issue: Staff earned and used leave hours that were not due to them.

Criteria: Section VII (H) of the Fiscal Policies and Procedures requires the Chapter to establish and maintain a system to account for the accrual and use of annual leave and sick leave.

Condition: Although the Chapter's accounting system automatically provides for the accounting of accrued and used leave hours each pay period, the Chapter Manager maintained a manual record of the leave hours for the permanent staff. Several errors made in the manual records, resulted in staff earning and using leave hours that were not due to them.

Examples of discrepancies in the manual leave records include:

- a) The number of hours accrued between pay periods were inconsistent.
- b) Duplicate posting of the leave accrual rate for the Chapter Manager.
- c) Used leave hours are not deducted from accrued leave.
- d) Not following pay date schedule in posting leave accrued.



Effect: Because the manual accounting of leave hours is inaccurate, it is likely the chapter staff used leave hours that were not actually available to them.

Cause: The Chapter Manager acknowledged that she has not received formal training on the MIP payroll module and, as such, is unfamiliar with certain system features. Therefore, she preferred to maintain a manual record for the leave hours.

Recommendation(s):

1. The Chapter Manager should use the MIP automated payroll module to account for staff leave hours.
2. The Chapter Manager should obtain proper training on the MIP payroll module to understand all system features.

Issue: Farm board stipends totaling about \$4,000 paid to the Chapter Manager could be duplicate compensation.

Criteria: Section XVI (D) of the Personnel Policies and Procedures requires an employee who has been appointed or elected to serve on a board, commission, or committee which pays a stipend, or who has been elected to a public office to take annual leave to attend to appointed or elected duties.

Condition: For the audit period, the Chapter Manager received stipends totaling approximately \$4,000 for serving on the Farm Board. To verify that the Chapter Manager was on approved leave for attending Farm Board related meetings that took place during the chapter working hours of 8:00 a.m. to 5:00 p.m., we requested to review the Farm Board meeting minutes. However, the chapter did not have evidence of farm board meetings. As such we were not able to verify that Farm Board meetings occurring during chapter working hours had approved leave in place for the Chapter Manager. Overall, the chapter cannot justify \$4,000 in stipends paid to the Chapter Manager for attending Farm Board meetings.

Effect: It is likely that the Chapter Manager was compensated twice while participating in farm board meetings: first, with regular wages if annual leave was not taken, and second, with stipends for service on the farm board.

Cause: Someone independent of the Chapter Manager did not verify the farm board meeting minutes to ensure the Chapter Manager took leave to attend meetings.

Recommendation(s):

1. The Chapter should have farm board meetings minutes on file.
2. Someone independent of the Chapter Manager should verify the farm board meeting minutes to ensure the Chapter Manager takes leave to attend meetings.

**Finding III: \$19,000 incurred for travel may not have benefitted the Chapter.**

**Criteria:** Section VII (I) of the Fiscal Policies and Procedures requires each traveler to have their travel approved by the Chapter Manager on a travel authorization form prior to travel. In addition, each traveler is required to submit an expense report with receipts and a trip report explaining the accomplishments of the trip within ten days of return from travel.

**Condition:** 69 travel documents were examined and 68% were not approved and 83% had missing supporting documentation.

**Effect:** There is no assurance that approximately \$19,000 of resources expended for travel by chapter staff and officials resulted in desired accomplishments and benefits for the Chapter.

**Cause:** Travelers did not obtain the Chapter Manager's approval to travel. In addition, the Chapter Manager did not monitor travel expenses to ensure all travel incurred have support documentation.

**Recommendation(s):**

1. The Chapter Manager should approve travel request prior to travel and ensure that required documents are provided by the traveler to support travel expenses.
2. Chapter travelers should obtain approval from the Chapter Manager prior to travel.

**Finding IV: Value of chapter fixed assets is unknown and therefore uninsurable against loss.**

**Criteria:** Section VIII of the Property Policies and Procedures requires the Chapter to maintain a detailed, complete, and accurate inventory of all chapter property. In addition, Section VIII (F) of the Fiscal Policies and Procedures requires the Chapter to report fixed assets in the balance sheet.

**Condition:** Management provided no detailed inventory of chapter property. In addition, the financial statements for FY2013 and FY2014 (as of March 31, 2014) did not disclose the chapter fixed assets (such as buildings, heavy equipment, etc.) or their values.

**Effect:** Without a property inventory, the Chapter cannot acquire insurance coverage to safeguard its property against damages and/or loss nor can it determine if any property is missing. Furthermore, the chapter is understating the value of chapter assets since fixed assets are omitted from the financial statements.

**Cause:** The Chapter Manager did not ensure the chapter has a complete inventory of its property.

**Recommendation(s):**

1. The Chapter Manager should develop an inventory of property owned by the Chapter.

2. The Chapter Manager should record and report the value of fixed (capital) assets in the accounting system and to the balance sheet.

**Finding V: Chapter does not comply with Navajo Nation and State reporting requirements.**

Issue: The Chapter's financial status is not disclosed to chapter membership.

**Criteria:** Section 1001 (B) 3, Financial Reporting, of Title 26 Local Governance Act requires the chapter Secretary/Treasurer to report the Chapter's financial position to the community membership each month at a duly called chapter meeting.

**Condition:** Four out of 18 months of meeting minutes were examined during the audit period, and the Secretary/Treasurer did not present financial reports to the chapter membership during these meetings.

**Effect:** Without monthly financial reporting, the chapter membership is unaware of the financial position of the Chapter. Pertinent information, such as revenues and expenses, is unknown which hinders informed decision-making.

**Cause:** The Chapter Manager did not make sure that monthly financial reports were prepared or provided to the Secretary/Treasurer for presentation.

- Recommendation(s):**
1. The Secretary/Treasurer should report the Chapter's financial position to the chapter membership at a duly called chapter meeting each month.
  2. The Chapter Manager should ensure the financial reports are prepared and provided to the Secretary/Treasurer for presentation to the chapter membership.

Issue: Chapter may owe a tax liability of about \$2,800 for state unemployment taxes.

**Criteria:** Section VII (7) of the Fiscal Policies and Procedures requires the Chapter to participate in the State Unemployment Compensation Act Fund. The only exception, according to the Arizona Department of Economic Security, is the Chapter is exempt from paying state unemployment taxes for employees who work as part of a work training program. Otherwise, as a certified chapter, the Chapter is responsible for making unemployment contributions on behalf of the chapter administration staff and applicable temporary employees.

**Condition:** During the audit period, the Chapter employed two permanent and 91 temporary employees. The total taxable wages paid to these employees was about \$141,800. However, there were no state unemployment tax reports or payments remitted to the Arizona Department of Economic Security.

Effect: The Chapter may owe about \$2,800 for tax liability to the State of Arizona. In addition, penalties could have been incurred for any delinquent reports.

Cause: The Chapter Manager did not establish a system to ensure unemployment taxes are calculated, reported, and remitted each quarter.

Recommendation(s): 1. The Chapter Manager should establish a process to calculate, report, and remit unemployment taxes due to Arizona Department of Economic Security on a quarterly basis.

## CONCLUSION

As an LGA certified chapter, the Dennehotso Chapter is held to a higher standard regarding the five management system. The five management system is intended to provide reasonable assurance that chapter financial reporting is reliable and accurate, chapter assets are safeguarded from loss or misuse, and chapters comply with applicable laws and regulations. In 2012, our review concluded that the Dennehotso Chapter was meeting this higher governance standard. However, during this review, we conclude that the Dennehotso Chapter's five management system is not operating effectively and does not meet its intended purpose. We found significant deficiencies that compromise the overall integrity of the five management system.

Chapter funds were not expended according to policies and procedures. Financial assistance was approved despite missing support documentation. In addition, the chapter administration did not perform follow-up assessments to make sure the housing recipients used the funds for their intended purpose. Furthermore, all 16 emergency fund disbursements examined (totaling about \$31,000) were unsupported and unjustified because there was no related community-wide emergency declared, no list of recipients of the emergency services, and no description of relief services provided.

Compensation paid to chapter employees was not supported with required documentation. Approximately \$68,000 was paid to chapter employees for hours they may not have actually worked. In addition, staff earned and used leave hours that were not due to them. Furthermore, it is likely that the Chapter Manager was compensated twice while participating in farm board meetings.

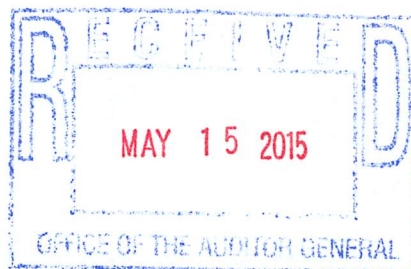
Travel expenses incurred by chapter staff and officials may not have benefited the chapter. 68% of travel expenditures examined were not approved and 83% were missing supporting documentation. In addition, the Chapter does not know the value of its property and therefore cannot insure the property against loss. Furthermore, the Chapter does not disclose the financial condition and results of operation to community members at chapter meetings as required by Navajo Nation reporting requirements. Lastly, the Chapter may owe about \$2,800 for State unemployment taxes due to not reporting wages and not remitting payment to the State.

## **CLIENT RESPONSE**



**DENNEHOTSO CHAPTER**

Western Navajo Agency  
P.O. Box 2301  
Dennehotso, Arizona 86535  
928.658.3300/3301  
Fax: 928.658.3304  
dennehotso@navajochapters.org



---

Frank C. Yazzie  
President

Martha Littleman  
Vice-President

Nancy Tsosie  
Secretary/Treasurer

Nathaniel Brown  
Council Delegate

---

May 14, 2015

Navajo Nation, Office of Auditor General  
Attn: Elizabeth Begay, CIA, CFA

Dear Mrs. Begay:

We have received a copy of the final draft of the Special Review (audit) of the Dennehotso Chapter. We have reviewed it and find it very unfavorable. However, although the audit does not paint a very good picture of our administrative processes, we will accept the findings with reservations.

Our chapter has been adversely affected by a recent disruption and interference with its records; and the abrupt departure of key personnel has left chapter in a predicament. Also, the directive to have a special review of our Chapter during the time we are addressing Ethics Complaints leaves us in an awkward situation with chapter leadership at odds with one another and knowing this directive was a retaliation tactic leaves the findings a little tough to accept as a fair and true picture of our administrative financial procedures. Nonetheless, there is not much we can do but accept the findings and move forward and fortify our chapter administration processes and build upon the findings.

We look forward to developing the corrective action plan and working with your office to assure our community members that the Dennehotso Chapter administration and leadership are working in their best interest, with integrity, and transparency.

Sincerely,

  
Frank C. Yazzie,  
Chapter President