

**OFFICE OF THE AUDITOR GENERAL**

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**The Navajo Nation**

**A 4th Follow-Up Review  
of the  
Red Valley Chapter  
Corrective Action Plan Implementation**



**Report No. 15-26  
June 2015**

**Performed by:  
Jonathan Harrison, Auditor**



June 30, 2015

Lee Zhonnie, President  
**RED VALLEY CHAPTER**  
P.O. Box 304  
Red Valley, AZ 86544-0304

Dear Mr. Zhonnie:

The Office of the Auditor General herewith transmits Audit Report No. 15-26, 4th Follow-up Review of the Red Valley 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 Red Valley Chapter corrective action plan.
- To determine the status of the other issues identified during the 3<sup>rd</sup> follow-up review.
- To identify the barrier(s), if any, that hindered corrective action.

To meet our objectives, we reviewed chapter financial activities, operations, and projects for the six-month period of July 2014 to December 2014.

#### Background

The following is the history of the Red Valley Chapter corrective action plan and the reviews conducted to verify implementation:

1. The Auditor General conducted an initial audit of the Red Valley Chapter in January 27, 2000, and issued audit report no. 01-12.
2. The Budget and Finance Committee approved the audit report and the corrective action plan developed by the Red Valley Chapter on July 22, 2002, per resolution no. BFJY-86-02.
3. The Auditor General conducted a 12-month follow-up review of the Chapter's corrective action plan implementation in 2005, and issued report no. 05-07 which concluded the Chapter did not fully implement its corrective action plan.
4. The Budget and Finance Committee approved the sanctions against Red Valley Chapter on January 03, 2006 per resolution no. BFJA-01-06.
5. The Auditor General conducted a 2<sup>nd</sup> follow-up review of the Chapter's correction action plan implementation in 2008, and issued report no. 08-21 which concluded that sanctions had to remain in place since the plan was not fully implemented.
6. The Auditor General conducted a 3<sup>rd</sup> follow-up review of the Chapter's correction action plan implementation in 2013, and issued report no. 14-02 which concluded that sanctions had to remain in place since the plan was not fully implemented.

Red Valley Chapter has been sanctioned since 2006. The sanctions involve withholding 10% of the Chapter's operating budget and 20% of the Chapter Officials stipends.

**Review Results**

The Red Valley Chapter has not fully implemented the corrective action plan and did not resolve the other internal control deficiencies identified during the 3<sup>rd</sup> follow-up review. As a result, the Chapter cannot provide reasonable assurance that it properly accounts for and safeguards all chapter assets and resources.

Red Valley Chapter did not fully implement 3 of 4 outstanding corrective measures. Although the Chapter agreed to present complete financial reports at monthly chapter meetings, the Secretary/Treasurer is presenting only the chapter fund balance which does not disclose information on revenues and expenditures. There was lack of adherence to policies and procedures, and poor proficiency on the accounting system due to insufficient training on the five management system manual and accounting system.


Of the eight other internal control deficiencies identified during the 3<sup>rd</sup> follow-up review, three were not fully resolved by the Chapter. The chapter inventory was unreliable because not all property items were recorded, property information was erroneous, value of fixed assets could not be substantiated, and questionable property items were labeled as fixed assets. Duties among the chapter staff were not segregated to ensure appropriate checks and balances. In addition, monitoring of staff activities and chapter operations by Chapter Officials was not clearly evident. See Exhibit A for the review results.

**Conclusion**

Title 12, Navajo Nation Code (N.N.C.) Section 8 imposes upon the Red Valley Chapter the duty to implement the corrective action plan according to the terms of the plan. Since the corrective measures were not implemented, Red Valley Chapter did not demonstrate sufficient improvements to resolve the audit issues. Therefore, the current sanctions imposed upon Red Valley Chapter shall remain in place.

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

Sincerely,

  
Elizabeth Begay, CIA, CFE  
Auditor General

xc: Ella Frazier, Vice President  
Stella Tsosie, Secretary/Treasurer  
Amber Crotty, Council Delegate  
Loretta John, Community Services Coordinator  
**RED VALLEY CHAPTER**  
Robert Begay, Department Manager II  
**DIVISION OF COMMUNITY DEVELOPMENT**  
Chrono

**Exhibit A**

**2015 REVIEW RESULTS**

**CORRECTIVE ACTION PLAN - IMPLEMENTATION STATUS**

<b>Prior Audit Issue: The Chapter's accounting system and internal control structure need improvement.</b>	
<b>Corrective Actions</b>	<b>Status of Corrective Action</b>
1. The Chapter will maintain current fund ledgers by posting the expenditures from the disbursement journal on a routine basis to provide an accurate fund balance.	Implemented
2. The Chapter will ensure community members are fully informed of the Chapter's financial matters by providing complete monthly financial reports to the community.	Not Implemented
3. The Chapter will develop, approve, and implement the five management system (FMS) manual. Train all staff and officials with the Red Valley FMS manual as well as their duties and responsibility to strengthen the internal controls structure.	Not Implemented
4. The Chapter will obtain training and apply skills needed to establish an accounting system capable of generating the basic financial statements on a monthly basis.	Not Implemented

During the 3<sup>rd</sup> follow-up review, other internal control and accounting system deficiencies were identified while verifying the implementation of the outstanding corrective measures. These deficiencies adversely affected chapter operations. Therefore, the Chapter was advised to address these deficiencies along with the outstanding corrective measures.

As of this follow-up review, we determined that three of the eight issues remain unresolved as indicated in the following table:

<b>Issues</b>	<b>Follow-up Results</b>
Issue 1: Checks issued did not have all supporting documents	RESOLVED
Issue 2: Follow-up visits were not conducted on housing assistance to ensure materials were used as intended	RESOLVED
Issue 3: Non-compliance with Internal Revenue Service, state unemployment, and Navajo Nation Workmen's Compensation	RESOLVED
Issue 4: No property/equipment insurance coverage	RESOLVED
Issue 5: Incomplete inventory of chapter property/equipment	NOT RESOLVED
Issue 6: No segregation of duties in accounting chapter revenue and expenditures	NOT RESOLVED
Issue 7: No monitoring of the chapter staff and operation by the Chapter Officials	NOT RESOLVED
Issue 8: Blank checks were pre-signed by the Chapter Officials	RESOLVED