

**OFFICE OF THE AUDITOR GENERAL**

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**The Navajo Nation**

**Jeddito Chapter  
Internal Audit**

**Report No. 15-31  
September 2015**

Performed by:  
REDW, LLC



September 8, 2015

Terry Yazzie, President  
**JEDDITO CHAPTER**  
P.O. Box 798  
Keams Canyon, AZ 86034

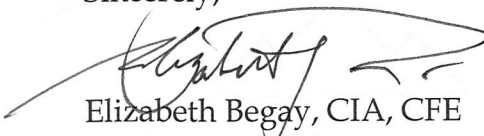
Dear Mr. Yazzie:

The Office of the Auditor General herewith transmits Audit Report No. 15-31, Jeddito Chapter Internal Audit. The internal audit was conducted, in conjunction with REDW LLP, Certified Public Accountants to determine whether Jeddito Chapter was implementing sound internal controls in managing chapter finances.

The auditors reported nine (9) findings summarized on the executive summary page of the audit report. In addition, the audit report provides recommendations to correct the reported findings and improve chapter operations. The Jeddito Chapter has agreed to resolve the audit findings.

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

Sincerely,



Elizabeth Begay, CIA, CFE  
Auditor General

Enclosure

xc: Rodger Paul, Vice President  
Nancita Bahe-Nez, Secretary Treasurer  
Donna Boyd, Community Services Coordinator  
Alton J. Shepherd, Council Delegate  
**JEDDITO CHAPTER**  
Jayne Mitchell, Senior Accountant  
Robert Begay, Department Manager II  
**DIVISION OF COMMUNITY DEVELOPMENT**  
Chrono

# Jeddito Chapter Internal Audit

## Executive Summary

Elizabeth Begay, Navajo Nation Auditor General  
Office of the Auditor General - Navajo Nation

REDW performed an internal audit of the Jeddito Chapter's (the "Chapter") operations to determine if they were in compliance with FMS and internal Chapter policies and procedures (P/Ps) and represented sound internal controls. To gain an understanding of the processes and controls in place, we interviewed selected personnel and read applicable P/Ps. To test controls over the purchase, sale and inventory of hay, we selected samples of hay purchases and sales to assess whether they were adequately supported, reconciled, and added/subtracted from the inventory on-hand. We performed completeness and existence tests over Chapter fixed assets and inventory items (i.e. printers, vacuums, etc.) to determine if assets reported actually existed and if assets on-hand were tagged and tracked. To assess the Chapter's disbursement process, we selected samples of general disbursements and emergency fund disbursements to determine if all required support and approvals were on file, required quotes were obtained and documented, and that certain riskier purchases appeared to be reasonable for the Chapter.

We tested a sample of new hire files to assess the Chapter's documentation of the application, interview and hiring process to determine if they adequately supported an unbiased and fair hiring process. We tested a sample of financial assistance awards to assess whether required application documentation was on file, the disbursement appeared appropriate, and the award did not exceed established thresholds. We selected four capital outlay expenditures to assess the related project file for adequate monitoring documentation and support and physically viewed the project to ensure it existed. Finally, we assessed the Chapter's current status of certain tax forms and payments.

## SUMMARY OF OBSERVATIONS AND RECOMMENDATIONS

Throughout the course of the internal audit, there were areas in which observations were not identified and controls appeared to be functioning as intended. All capital outlay projects selected for testing were located and the related project files appeared to be in good order. All State Unemployment Tax Act (SUTA) reports selected for testing were on file and appeared to have been filed and paid timely. A summary of the findings identified is presented below.

*Hay Inventory Findings*—Overall, there were not adequate controls in place to ensure that hay inventory is tracked and not stolen, that hay purchases are supported and appropriate and that cash receipts from hay sales are ultimately deposited. There was no perpetual inventory process in place to track how much hay is on-hand at any time. Hay purchases were not consistently supported by the required approvals and quotes, and adequate segregation of duties were not in place between the purchasing and receiving functions. There was not an adequate reconciliation process in place to ensure that all hay cash receipts ultimately made it to the Chapter's bank account and that customers were not picking up more hay than they paid for. A perpetual inventory system should be implemented, controls should be developed to ensure hay purchases are adequately supported, and a full reconciliation process for cash receipts should be implemented. The purchasing and receiving functions should be segregated whenever possible, or additional reviews/verifications should be put into place.

*Fixed Assets and Inventory Findings*—Fixed assets were not being tagged by the Chapter and the required annual physical count was not adequately documented. Small inventory items were not consistently tracked or were disposed of without adequate documentation of a disposal. All assets should be tagged immediately upon receipt by the Chapter and all disposal of assets should be documented. The required annual physical count should be documented and all tags and listings should be updated at that time. The Chapter's fixed assets should be added to the balance sheet.

*Disbursement Findings*—Several disbursements were not properly supported by the required quotes, receiving reports, or other required documentation. Chapter purchases were not consistently pre-approved as required by the FMS policies. Consider implementing a disbursement checklist to ensure that all required documentation and approvals are obtained prior to disbursement. Consider permitting email approval for Chapter purchases or approving an alternate approver.

*New Hire Findings*—The application, interview and hiring processes were not adequately documented. Positions were not always posted for the required time, interview teams were not consistently documented, and new hire files were not complete. The new hire checklist being used by the Chapter should be updated to include interview documentation and a review process should be implemented to check for completeness. P/Ps should be updated to include the Chapter's interview process and required documentation for new hires.

*Financial Assistance Findings*—Financial assistance awarded by the Chapter was not consistently and adequately documented, and in most cases, the support available did not support that unbiased decisions were being made. In some cases, recipients exceeded established ceilings for assistance. Consider developing a financial assistance checklist to ensure that all application information is received and that all assessments and decisions are documented. Establish a financial assistance tracking spreadsheet to track all recipients and the awarded dates and amounts.

*Emergency Fund Findings*—Emergency fund disbursements were made for expenses that did not appear to meet the eligibility requirements for the use of emergency funds. Supporting documentation was not consistently on file to support disbursements of emergency funds. The Chapter should research the expenses/situations that warrant the use of emergency funds and ensure that all future expenses of such funds meet the requirements. Consider adding to the disbursement checklist those additional required items for emergency fund disbursements.

*Payroll Tax Findings*—The Chapter was not filing Quarterly 941's timely, resulting in approximately \$12,000 in fees and penalties. Develop a process to ensure that following each quarter-end, the 941 reports are prepared, reviewed and submitted by the applicable IRS deadlines.

Further details on this observation, as well as management responses and additional lower risk observations, are included in the attached report.

REDW LLC

Albuquerque, New Mexico  
September 3, 2015

## **REDW CONTACT INFORMATION**

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**The Office of the Auditor General - Navajo Nation  
Jeddito Chapter Internal Audit**

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## **Jeddito Chapter Internal Audit Report**

Elizabeth Begay, Navajo Nation Auditor General  
Office of the Auditor General – Navajo Nation

### **INTRODUCTION AND BACKGROUND**

We performed the internal audit services described below to assist the Jeddito Chapter (the “Chapter”) in evaluating compliance with policies and procedures (P/Ps) relating to various Chapter functions. Our internal audit focused on evaluating processes and controls to determine if they were in compliance with Five Management System (FMS) P/Ps and reflect best practices and sound internal controls. We evaluated controls for the tracking of hay, fixed assets, and inventory, and the procedures used to document disbursements, financial assistance awards, emergency fund use, capital expenditure projects, and payroll taxes. We held an entrance conference with management on January 13, 2015, to discuss the timing and scope of the audit. We held an exit conference on June 22, 2015, to discuss the observations and recommendations.

### **Department Purpose and Organization**

The Jeddito Chapter is set up to establish a healthy environment for the people it serves. The Chapter’s mission is to foster the four stages of the Dine Philosophy of life through the recognition and implementation of Thinking, Planning, Life, and Values and to apply these values to the growth of infrastructure, community, and economic development.

### **OBJECTIVE, SCOPE, AND METHODOLOGY**

**The objectives of this internal audit were to:**

- Evaluate the procedures in place to track hay purchases, hay sales and inventory.
- Evaluate the tracking mechanisms for fixed assets and inventory (i.e. property items at the Chapter that are below the Chapter’s threshold for capitalization).
- Evaluate the documentation for disbursements for proper support and approval.
- Determine if employees are hired in compliance with FMS P/Ps and if adequate documentation exists to indicate compliance.
- Determine if FMS P/Ps are being followed when disbursing financial assistance awards.

- Determine if emergency funds are utilized and recorded in compliance with FMS P/Ps.
- Assess whether capital expenditure projects appear reasonable and in compliance with P/Ps.
- Assess whether the Chapter is in compliance and current with filing tax reports and the related payments.

**Policies and Procedures and Interviews:** In order to gain an understanding of processes and controls in place over the Chapter's functions, we read the FMS P/Ps and internal Chapter P/Ps and interviewed or received information from the following personnel:

- Elizabeth Begay, Auditor General
- Eddie Kaiybetoney, Grazing Official – Jeddito Chapter
- Donna Boyd, Chapter Service Coordinator (CSC) – Jeddito Chapter
- Emerita Baker, Accountant Maintenance Specialist – Jeddito Chapter

**Sample Selection and Testing:** We selected samples of hay purchases and sales, fixed assets, disbursements, new employees, financial assistance awards and capital expenditure projects for the 2014 fiscal year ended September 30, 2014. We selected several different samples in order to increase the chance of identifying problems in areas identified as moderate to higher risk. Our combined samples resulted in testing 168 total items.

1. *Tracking of Hay Purchases, Sales and Inventory:* We performed a physical observation of the hay on-hand at the time of the audit to determine if the quantity on-hand agreed to the quantity indicated as available for sale on the Warehouse Daily Log. A judgmental sample of four hay purchases processed during fiscal year 2014 was selected for testing, and for each hay purchase, we performed the following:
  - a. Determined if three quotes were obtained prior to purchase and if the selected quote was approved.
  - b. Agreed the invoice quantity to the receiving or delivery report and determined if the receipt of hay was supervised.
  - c. Traced the purchase to the applicable Warehouse Daily Log and recalculated the totals on the log.
  - d. Determined if the check amount agreed to the invoice and contained the appropriate signatures.
  - e. Assessed whether there were adequate separation of duties between the purchasing and receiving functions for hay.
  - f. Determined if the purchase was supported by a Declaration of a State of Emergency since hay purchases were being processed through the emergency fund.

We selected a random sample of 25 hay sales processed during fiscal year 2014. For each hay sale, we performed the following:

- a. Determined if the colored hay ticket agreed to the cash receipt and traced the receipt to the deposit slip and bank statement.
- b. Traced the cash receipt to the Daily Balance Sheet.
- c. Traced the sale to the applicable Warehouse Daily Log.



- d. Traced the cash or check received to the deposit slip and the bank statement.
  - e. Tested to ensure that the Warehouse Daily Log was completed and recalculated.
2. *Tracking of Fixed Assets and Inventory Items:* Chapters should maintain two listings including a Fixed Asset Listing, used to track assets over the Chapter's capitalization threshold, and an Inventory Listing, used to track all assets including those below the Chapter's capitalization threshold (i.e. printers, vacuums, etc.) for insurance purposes. To determine whether the Chapter was properly tracking fixed assets, we performed the following tests:
- a. *Completeness Test:* Randomly selected three assets on-hand at the Chapter and traced them to the Chapter's Fixed Asset Listing.
  - b. *Existence Test:* Randomly selected three assets on the Fixed Asset Listing and traced them to the actual asset at the Chapter.

To determine whether the Chapter was properly tracking inventory items, we performed the following tests:

- a. *Completeness Test:* Randomly selected five inventory items on-hand at the Chapter and traced them to the Chapter's Inventory Listing.
- b. *Existence Test:* Randomly selected five inventory items on the Inventory Listing and traced them to the actual item at the Chapter. In addition, during our disbursement testing below, we selected an additional five inventory items purchased and traced them to the item at the Chapter.

In addition, we scanned the repair and maintenance expense account activity in the general ledger (GL) to assess whether there were any expenses over \$1,000 that were inappropriately expensed rather than being capitalized. No items over the threshold were identified. Finally, we observed the most recent physical inventory count to determine if it was completed in accordance with the FMS.

3. *Disbursement Documentation:* We selected a judgmental sample of 38 disbursement transactions processed during fiscal year 2014. The sample was judgmentally selected to include store purchases, internet expenses, employee expense reimbursements, gas purchases and a random sample of purchases. For each disbursement selected, we performed the following:
- a. Determined if the check contained required signatures and that the amount paid agreed to adequate supporting documentation.
  - b. Assessed whether the receiving report was prepared and approved and whether there was segregation of duties between the purchasing and receiving functions.
  - c. Determined if the required three quotes were obtained and that the selected vendor was approved.
  - d. Determined if a purchase order (PO) or Fund Approval Form was prepared and it was approved prior to the purchase being made.
  - e. For employee expense reimbursements, determined if items that were not supported by receipts or were returned were deducted from the reimbursed amount.

- f. For internet service expenses, determined if the only location being billed for was the Chapter.
  - g. For gasoline purchases, assessed the reasonableness of the purchase amount in comparison with the vehicle being filled (i.e. gallons purchased appeared reasonable for tank size).
  - h. For purchases related to building supplies, observed the related projects onsite to determine if the supplies purchased appeared to have been used for the Chapter.
4. *Hiring Process:* We selected a statistical sample (based on a 90% confidence level (CL) and a 10% tolerable deviation (TD)) of 17 employees hired in fiscal year 2014. For each new hire, we performed the following:
- a. Determined if there was evidence that the job was posted for a minimum of ten working days.
  - b. Observed the employee file to determine if all required documentation and approvals were maintained, including documentation of re-hire, if applicable.
  - c. Assessed the interview documentation to determine if an unbiased/unrelated interview panel was utilized and if the file documentation supported that the minimum qualifications for the position were met.
5. *Financial Assistance:* Based on a moderate risk assessment, we selected a random sample of 30 financial assistance transactions that occurred in fiscal year 2014. We tested these transactions for the following:
- a. Determined if all required documentation was received in the application packet, eligibility and reason for the award was documented, the award was approved prior to funding, and procedures for processing the application were followed.
  - b. Ensured that if a relative was applying, then the appropriate officials were notified.
  - c. Assessed whether the check was made out to the vendor or institution unless a reason for not doing so was documented, the check contained the required signatures and agreed to support, and the award amount did not exceed the allowable ceiling amounts.
  - d. Ensured that financial assistance was limited to one award per family every 12 months, unless approved otherwise.
6. *Emergency Funds:* Based on a low risk assessment, we judgmentally selected 20 disbursements made from the emergency fund in fiscal year 2014. We excluded hay purchases from our sample. For each disbursement, we tested for the following:
- a. Determined if a State of Emergency was declared by the Chapter President to warrant the use of emergency funds.
  - b. Determined if the check contained two authorized signatures and the amount agreed to support.
  - c. Assessed whether the expenditure appeared to be for the benefit of the entire community, rather than for an individual member.
  - d. If the expense was related to the hiring of temporary personnel, determined if the cumulative total hours worked by the temporary employee was less than 80 hours and there was documentation that they performed emergency and disaster relief services.

- e. Determined if the funds were expended in a manner consistent with the Chapter's emergency response plan.
  - f. Ensured that the expense appeared to be for an emergency purpose which was defined as "High risk/medical, road closures, food and water supplies, livestock feed, fuels for heating, cooking, and emergency shelter."
7. *Capital Outlay Expenditures:* Utilizing the GL detail for fiscal year-end 2014, we judgmentally selected a sample of four capital outlay expenditures to test for the following:
- a. Determined if the project appeared reasonable for the Chapter.
  - b. Ensured that the project was approved in the annual budget process.
  - c. Physically observed the project site where the funds were being spent.
  - d. Ensured that the project file had support that the CSC was tracking and overseeing the project.
  - e. Determined if any of the expenses related to the project appeared to be for indirect services.
8. *Tax Payments:* We contacted the Chapter's Internal Revenue Service (IRS) Representative and inquired regarding the status of back taxes owed by the Chapter. In addition, we obtained the four quarterly 2014 State Unemployment Tax Act (SUTA) reports to determine if they were filed and paid timely.

## FINDINGS AND RECOMMENDATIONS

### HAY INVENTORY FINDINGS

#### **Finding I: Lack of Controls over Hay Inventory**

*Issue:* There were a lack of controls over the physical hay inventory.

*Criteria:* Section IX, A of the FMS Procurement Policy requires physical controls to be in place to identify misappropriation of inventory, inventory to be verified on a monthly basis through a physical inventory count, and a perpetual inventory to be maintained.

*Condition:* During our analysis of the hay purchasing process and our physical observation of the hay inventory site, we identified the following issues with internal controls over the inventory:

- a) There was no documentation indicating that actual inventory on-hand was being physically counted and reconciled to the current electronic system or the Warehouse Daily Log on a monthly basis.
- b) The Warehouse Daily Logs obtained for the testing of four hay purchases did not consistently have running totals indicating that a perpetual inventory system was being maintained.

*Effect:* Failure to maintain adequate controls over hay inventory may result in overstocking, shortages or losses as a result of theft.

*Cause:* The Chapter was not utilizing the Warehouse Daily Log or the current electronic system to record and verify a running total (i.e. perpetual system). System reports and the Warehouse Daily Log were being utilized to record purchases and sales of hay inventory, but there was not a method for tracking the balance on-hand at any point in time. The Chapter did not have a monthly inventory count and reconciliation process in place.

*Recommendation:* The Chapter should implement methods of controlling hay inventory in compliance with the FMS Procurement Policy. The Chapter should either use the current electronic system or the Warehouse Daily Log to keep a running total (i.e. perpetual system) of the hay on-hand. On a monthly basis, the CSC should perform a physical count of the inventory on-hand and reconcile the total to the current Warehouse Daily Log and/or electronic system. Any variances should be researched and resolved immediately.

## **Finding II: Missing Documentation for Hay Inventory Purchases**

*Issue:* Hay inventory purchases were not adequately documented.

*Criteria:* The FMS Procurement Policy requires purchases to be properly approved and documented. This includes approval of purchases by the CSC and Secretary/Treasurer prior to disbursement of funds, documentation that three quotes were obtained for each purchase, segregation of duties between the purchasing and receiving functions, and emergency funds only being used when a Declaration of Emergency is made by the President of the Chapter or the President of the Navajo Nation.

*Condition:* During the analysis of four hay purchases, we identified several instances where the hay purchases were not properly approved or documented, including:

- a) Four instances where emergency funds were used to purchase hay without documentation indicating that a Declaration of Emergency had been made by the Chapter President or the Navajo Nation President.
- b) Four instances where the hay was purchased and received by the same person.
- c) Three instances where there were only two quotes obtained prior to the hay purchase and there was no documentation why a third could not be obtained.
- d) Two instances where the purchase was made prior to the approval being obtained on the Fund Approval Form.

*Effect:* A lack of adequate controls over the purchasing process could result in misappropriation, misuse, and misrepresentation of community funds. If duties between purchasing and receiving are not segregated, items received could be stolen and go unnoticed.

- Cause:* The conditions above occurred due to:
- a) Chapter management did not appear to fully understand the requirements to utilize emergency funds.
  - b) The AMS was acting as the backup when the Warehouse employee was not onsite at the Chapter to receive hay deliveries.
  - c) Personnel responsible for obtaining and documenting quotes did not adequately document the quotes obtained.
  - d) The second approver on Fund Approval Forms is the Secretary/Treasurer, which does not come onsite to the Chapter often enough to approve all purchases prior to the purchase being made.

- Recommendation:* The Chapter should implement additional controls to ensure FMS procurement requirements are followed and that Chapter purchases are adequately controlled including:
- a) Inquire with officials as to whether hay purchases qualify for the use of emergency funds. If it does not qualify, other funds should be used for these purchases. If it does qualify, the required Declaration of Emergency should be obtained and documented.
  - b) Segregate duties to ensure the person purchasing hay is not the same person receiving hay. In instances where segregating the duties is not possible, consider having an additional person verify the receipt at a later time and document that additional review on the receiving support.
  - c) Obtain three quotes for all purchases to ensure that competitive pricing is being received. If due to the nature of the purchase there are less than three sources of reasonable quotes, that fact should be documented and maintained with the purchase support.
  - d) Require that all purchases are approved prior to the purchase being made. If the Secretary/Treasurer is not available to come onsite to approve purchases more often, consider developing an electronic (email) approval process for purchases or assessing the need for an alternate approver.

### **Finding III: Lack of Controls over Hay Sales including Cash Receipts**

*Issue: Hay sales and the related cash receipts were not adequately documented and reconciled, and duties were not adequately segregated.*

*Criteria:* The FMS Fiscal Policies require that all resale inventory sales be properly recorded, that receipts be properly completed and issued, that duties be appropriately segregated, and that cash receipts be deposited and reconciled timely. In addition, in order to ensure that customers do not receive hay that they did not pay for, a colored hay ticket must be collected, signed by the loader and matched to the corresponding cash receipt after the hay is loaded for the customer.

*Condition:*

During the analysis of the support for 25 hay sales, we identified several instances where hay sales were not properly approved, documented or reconciled and the duties were not adequately segregated including:

- a) Fifteen instances where the daily Chapter Cashier Balance Sheet was not reviewed and signed by someone other than the Cashier.
- b) Three instances where there was a variance between the Revenue Deposit ticket and the related cash receipts. In these cases, the deposit could not be traced to the corresponding bank statement.
- c) Seven instances where the colored hay ticket was not signed by the loader, and in one of these cases, the number sequence of the ticket did not appear to be in sequence with the batch.
- d) One instance where the Revenue Deposit ticket referenced the wrong cash receipts and five instances where it did not reference any cash receipts resulting in an impossible or difficult reconciliation process.
- e) One instance where the Daily Deposit sheet referenced the wrong cash receipts.
- f) One instance where the Chapter employee that received the cash for the hay sale was also the loader of the hay.
- g) Seven instances where the receipts in the receipt book did not have a corresponding colored hay ticket attached. In addition, the colored tickets used for customers to pick-up hay purchased are very generic and are not pre-numbered in anyway. This is resulting in inconsistent tickets that could easily be misappropriated.

*Effect:*

The inconsistent documentation made it very difficult or impossible to reconcile hay sales to cash receipts and the bank deposit. A lack of an adequate reconciliation process and inadequate segregation of duties can result in misappropriation of hay inventory and/or cash receipts going unnoticed. If colored hay tickets are not issued and reconciled back to cash receipts, customers could claim that they did not receive hay that they purchased.

*Cause:*

Overall, there was not a streamlined process for reconciling individual cash receipts to the daily Chapter Cashier Balance Sheet, the Revenue Deposit Ticket and the Daily Deposit sheet. The current process made it very difficult to reconcile individual cash receipts to the bank deposit. In addition, the Cashier was acting as the backup when the Warehouse employee was not onsite at the Chapter to load hay for customers.

Finally, colored tickets were not being consistently collected from the customer when the hay was loaded, and those tickets that were collected were not consistently submitted to the Cashier. In many cases, these colored tickets were prepared by temporary workers, which increased inconsistencies as they were not pre-numbered or tracked in any way.

- Recommendation:* The Chapter should implement additional controls to ensure that hay inventory and related cash receipts are adequately protected and accounted for. Consider the following:
- a) All hay sales should be documented on a cash receipt and each cash receipt should have a colored ticket attached signifying that the customer picked up the hay.
  - b) When the Cashier collects the colored ticket, they should ensure that the loader signed the ticket. Missing signatures should be obtained immediately.
  - c) A reconciliation process should be developed to easily agree cash receipts to the Revenue Deposit ticket and the Daily Deposit sheet. The details of what makes up each deposit should be listed and all cash receipt numbers should be verified.
  - d) The duties of cash receipts and loading of hay purchased should always be segregated. If personnel are not onsite to allow for segregation, the customer should be asked to return later in the day to pick up their hay purchased.
  - e) A consistent process for developing, issuing and collecting pre-numbered colored hay tickets should be developed, and temporary workers should be held accountable for following that process.

#### **FIXED ASSETS AND INVENTORY FINDING**

#### **Finding IV: Inadequate Tracking of Fixed Assets and Inventory Items**

*Issue: Fixed assets and inventory items were not properly tagged and tracked.*

*Criteria:* The FMS Property Management Policies require the Chapter to maintain a complete, detailed and accurate listing of all Chapter fixed assets and inventory items. The policy also requires that the CSC perform an annual physical inventory of all Chapter fixed assets and inventory items and that all assets are tagged upon receipt for proper tracking. Generally Accepted Accounting Principles (GAAP) requires that fixed assets be reported on the balance sheet.

*Condition:* During our analysis and testing of fixed assets and inventory items at the Chapter, we found the following noncompliance with FMS policies:

- a) All fixed asset selected for testing were not tagged with an internal tag number and there was no other means (i.e. serial number) being used to track the asset.
- b) The most recent fixed asset physical inventory count performed was not signed or dated by the preparer, and the count was not reviewed/approved by the CSC.
- c) During our disbursement testing, we identified two instances where the Chapter was not able to locate small inventory items purchased with Chapter funds. It appeared that at least one of the items had been disposed of; however, the disposal was not documented.

In addition, the Chapter had approximately \$150,000 of fixed assets on their internal listing; however, the listing only included the asset name and cost and did not track information such as depreciation, accumulated depreciation, useful life and net book value.

*Effect:* Adequate controls were not in place to ensure that Chapter fixed assets and inventory items are not damaged or stolen. In the event of an asset or inventory item being stolen, it is unlikely that the Chapter's current processes would identify it. In addition, the Chapter's assets on the internal listing were not adequately tracked.

*Cause:* The Chapter did not have procedures in place to ensure that the FMS was adhered to and that Chapter assets and inventory items were adequately protected, tracked and reported.

*Recommendation:* All fixed assets and inventory items purchased for the Chapter should be tagged immediately upon receipt and added to the appropriate listing for tracking. The CSC should perform and document the required annual count. Any discrepancies identified during the annual count should be investigated and the listings should be updated accordingly. In the event that an item is disposed of, the disposal should be adequately documented. Finally, the Chapter's fixed assets internal listing should be updated to include information such as depreciation, accumulated depreciation, useful life and net book value.

#### **DISBURSEMENTS FINDING**

##### **Finding V: Missing Documentation and Authorization for Disbursements**

*Issue:* Several purchases were missing supporting documentation and/or did not include documentation of required authorizations.

*Criteria:* The FMS Procurement Policy requires that all purchases be properly initiated, reviewed, authorized, documented and tracked.

*Condition:* During our analysis of 38 disbursements, we identified several instances where the Chapter's disbursement documentation was not in compliance with the requirements of FMS. Specifically, we identified the following:

- a) Twenty instances where the purchase was made prior to the approval being obtained on the Fund Approval Form. In addition, during our capital expenditure testing, we identified an additional four purchases where prior authorization was not on file.
- b) Twelve instances where there was no documentation of three quotes being obtained prior to the purchase and there was no documentation of the reason for the missing quotes.
- c) Eight instances where the receiving report was not on file and one instance where the receiving report was not signed.



- d) Four instances where there was not adequate documentation on file to support a fuel purchase to determine which vehicle the fuel was for.
- e) Three instances where the Chapter was unable to provide any support for the disbursement.

*Effect:* Disbursements were not adequately documented and authorized resulting in an increased risk of Chapter funds being utilized for unapproved purposes or purchased items being misappropriated. In addition, inadequate controls in the disbursement process and missing supporting documentation prevents the Chapter from proving that Chapter funds were used appropriately in the event that accusations arise.

*Cause:* The second approver on the Fund Approval Forms is the Secretary/Treasurer, who does not come onsite to the Chapter often enough to approve all purchases prior to the purchase being made. The Chapter did not have procedures in place to ensure that all disbursements were properly supported by the required quotes, receiving documentation and other support.

*Recommendation:* Require that all purchases are approved prior to the purchase being made. If the Secretary/Treasurer is not available to go onsite to approve purchases more often, consider developing an electronic (email) approval process for purchases or assessing the need for an alternate approver. Chapter management should consider developing a disbursement checklist to be utilized to ensure that all required documentation and approvals are on file prior to processing a disbursement. The checklist could be attached to the disbursement support and checked for completeness prior to check signature.

### NEW HIRE FINDING

#### **Finding VI: Inadequate Hiring Documentation**

*Issue:* Consistent documentation was not on file to support the application, interview and hiring process.

*Criteria:* The FMS Personnel Policies require that all applicants indicate on the official application form whether they are related to any employee, and this information will be used to determine possible conflicts of interest (Section III). Adequate documentation of the interview process is pertinent to show that conflicts of interest did not occur. The FMS also requires that all vacant positions be advertised for a minimum of 10 working days (Section IV) and that the CSC approve all hiring decisions (Section II). Internal department policies require the use of an unbiased/unrelated interview panel be used and that upon hire, certain required documentation be obtained.

*Condition:* During the analysis of 17 new hire files, we found that the Chapter was not consistently following the FMS and internal policies related to the application, interview and new hire processes. Specifically, we found:

- a) Ten instances where documentation was not on file to support that the position was posted for the required ten working days.
- b) Eleven instances where the interview process was not adequately documented including a lack of documentation of who the interview panel was or a group interview process was utilized without a set policy for doing so.
- c) Fourteen instances where the new hire file was missing required documentation such as a W-4, documentation that the minimum requirements were met, missing CSC approval, and/or other required support. In two of these instances, the new hire file could not be located.

In addition, the Chapter employment application did not have an option for the applicant to indicate whether they were related to any of the current Chapter employees. Finally, there were no set policies regarding the requirements to participate in the Summer Youth Education Program (SYEP), such as age or school enrollment, and the support that must be submitted to show that an applicant meets the requirements.

*Effect:* The Chapter's documentation would not be adequate to support that unbiased and fair hiring decisions were being made, which could result in claims against the Chapter that could not be easily refuted.

*Cause:* The Chapter was utilizing a file checklist to organize new hire information; however, it was not being utilized effectively and/or being reviewed for completeness. There were no formal policies and procedures in place for the interview process, resulting in inconsistent documentation. The Chapter does not have P/Ps in place to document the requirements of the interview and hiring process.

*Recommendation:* The current new hire checklist should be updated to include required interview documentation. The required documentation should include enough to show who the interviewers were, what factors were considered in making a hiring decision, and the outcome of the interview process. A formal review process should be implemented to ensure that the checklist is appropriately completed and that all interview and new hire documentation and required approvals are on file prior to an employee's first day of work at the Chapter. The informal internal P/Ps should be formalized and documented and should address the group interview process and what documentation must be kept on file for all applicants.

## FINANCIAL ASSISTANCE FINDING

### **Finding VII: Lack of Financial Assistance Eligibility Documentation**

*Issue: Several financial assistance files did not contain required eligibility documentation and/or were not processed in accordance with policy.*

*Criteria:* The FMS Fiscal Policies require that all awards of financial assistance be adequately documented and approved. FMS also requires that checks be made payable to a vendor/institution and assistance be limited to one per family per year unless extraordinary circumstances occur and required approvals are obtained. In addition, the Veteran's Affairs Committee policies require that applicants attend a Veteran's Committee meeting and complete the required application documentation and that the Committee approve the assistance, as documented in the meeting minutes, prior to disbursement of Veteran assistance funds.

*Condition:* During our analysis of 30 financial assistance files, including two building, 14 scholarship, and 14 Veteran awards, we identified several documentation issues including:

- a) General—Twenty-five instances where the file did not contain adequate documentation of one or more of the following requirements: (1) The reason the assistance was provided, (2) Chapter approval of the checks being made payable to veterans rather than to vendors/institutions, and (3) Documentation of required approvals prior to payment.
- b) Building—Two instances where the file contained at least one of the following conditions: (1) No income verification was on file, (2) Assistance paid exceeded the allowable ceiling.
- c) Scholarship—One instance where official transcripts were not included in the file.
- d) Veterans—Eleven instances where the file contained at least one of the following conditions: (1) Missing required approvals, (2) Missing sign-in during the Veterans Committee meeting, (3) Missing required documentation of approval in the meeting minutes, (4) Insufficient documentation regarding changes to ceiling amounts, (5) Multiple financial hardships received within a 12 month period without adequate documentation of the reasoning and approval, (6) No voter registration on file, (7) Assistance paid exceeded ceiling amount, and (8) Missing Financial Assistance form.

*Effect:* The lack of documentation related to the financial assistance application and award process can result in biased, or the appearance of biased, and/or inconsistent awarding of financial assistance funds.

*Cause:* The Chapter did not have controls in place to ensure that each type of financial assistance award was supported by all required application, approval and disbursement documentation. In addition, there was no tracking process to ensure that those receiving the funds did not exceed the established ceilings.

*Recommendation(s):* A checklist should be developed that addresses the requirements for each type of financial assistance awarded by the Chapter. The checklist should be completed prior to the disbursement of any financial assistance award. A formal review process, to ensure that the checklist was completed and that all required support is on file, should be implemented. A financial assistance spreadsheet should be maintained to track who received financial assistance, the amount, and the date to ensure that the set ceilings or number of awards permitted are not exceeded without adequate reasoning and support.

#### **EMERGENCY FUND FINDING**

#### **Finding VIII: Incorrect Expenditure of Emergency Funds**

*Issue: Emergency fund usage requirements are not being followed and documented appropriately.*

*Criteria:* The FMS Procurement Policies require that purchases made with emergency funds be supported by a Declaration of Emergency, adequate supporting documentation, and Chapter approval, and that the use of the funds meet specific eligibility requirements to qualify as an emergency.

*Condition:* During our testing of 20 emergency fund expenditures, we identified several instances where the use of emergency funds was either not adequately supported or approved or did not appear to meet the eligibility requirements for the use of emergency funds. Specifically, we found:

- a) Seventeen instances where the expenditure did not appear to be consistent with the Chapter's emergency response plan including; (1) Being for the benefit of the whole community, (2) Being supported by a Declaration of Emergency, or (3) Meet the definition of an "emergency" which is defined as "High risk/medical, road closures, food and water supplies, livestock feed, fuels for heating and cooking, and emergency shelter."
- b) One instance where the original receipt/invoice for the expenditure was not on file and there was no documentation that prior approval was received prior to the disbursement of the funds.
- c) Four instances where there was no supporting documentation for the emergency expenditure.
- d) One instance where the supporting documentation did not agree (in amount) to the expenditure recorded.

- e) Four instances where the expense was for temporary workers to help with a special event; however, there was no documentation of the workers' pay rates.

*Effect:* Chapter funds designated as "Emergency Funds" are being spent in a manner that is not consistent with the FMS policies and the Chapter's emergency response plan. Adequate controls are not in place to ensure that expenditure documentation is complete and that emergency funds are only used for qualifying situations.

*Cause:* Chapter management did not appear to clearly understand what types of expenses are approved for the use of emergency funds. The Chapter did not have adequate controls in place to ensure that disbursements were adequately supported.

*Recommendation:* Chapter management should research and obtain a better understanding of those Chapter expenses that would and would not qualify for the use of emergency funds. In addition, as referenced in the recommendation to finding V above, management should consider developing a disbursement checklist. Consider adding requirements for those cases when emergency funds are utilized such as (1) Declaration of Emergency was declared and support is on file, (2) The reason for the expenditure appears to be consistent with the Chapter's emergency response plan and the FMS definition of an "emergency," and (3) Chapter approval was obtained for the use of emergency funds.

### PAYROLL TAX FINDING

#### **Finding IX: Payroll Tax Penalties and Late Fees**

*Issue:* The Chapter was not filing required 941 reports by the applicable due dates resulting in penalties and fees.

*Criteria:* The IRS requires that Quarterly 941 reports are filed, and the associated tax payments are made, within one month after each calendar quarter-end.

*Condition:* Since 2006, the Chapter has had nine Quarterly 941 reports that were not filed timely and resulted in fees and penalties. In addition, the September 30, 2009 report has not been filed to date.

*Effect:* There were approximately \$12,000 of fees and penalties incurred due to the late filings, and this amount was outstanding as of the time of the audit. In addition, additional tax, fees and penalties are expected on the unfiled 2009 report.

*Cause:* Several tax returns were either filed late or not filed by prior Chapter management. The Chapter is in the process of getting caught up on these past fees and penalties and unfiled reports.

*Recommendation(s):* Chapter Management should immediately pay all past due penalties and fees and file the 2009 941 report to ensure that additional costs are not incurred. A process should be developed to ensure that following each quarter-end, the 941 reports are prepared, reviewed and submitted by the applicable IRS deadlines.

\* \* \* \* \*

The above represents the items that constitute significant conditions. Other, less significant items were addressed with management during the audit and are not included.

We received excellent cooperation and assistance from the Jeddito Chapter personnel during the course of our testing. We very much appreciate the courtesy and cooperation extended to our personnel. We would be pleased to meet with you to discuss our findings and answer any questions.

REDW LLC

Albuquerque, New Mexico  
September 3, 2015

## **CLIENT RESPONSE**

THE  
NAVAJO  
NATION



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Grazing Member

DONNA BOYD  
Community Service Coordinator

EMERITA BAKER  
Accounts Maintenance Specialist

CHRISTALEEN FRANKLIN  
Community Health Representative

August 28, 2015

Elizabeth Begay, CIA, CFE  
AUDITOR GENERAL  
OFFICE OF AUDITOR GENERAL  
P.O. BOX 708  
Window Rock, Arizona 86515

Dear Mrs. Begay:

The Jeddito Chapter has received a final draft copy of the audit conducted by REDW LLC for the period beginning October 1, 2013 and ending December 31, 2014.

In review of the audit report, we are in agreement to some of the findings for which we will develop a Corrective Action Plan based on the recommendations made by REDW LLC and your office. Additionally, there are also some disputed findings that we had previously addressed and submitted documentation and justification related to the finding. However, there is no indication that the additional justification we provided were reviewed and considered.

Our position and response to the audit findings are:

**FINDING I: Lack of Control over Hay Inventory**

We are in agreement with the finding. Yes, we have conducted physical inventory but not on a consistent basis. Daily logs are kept in the front office not the warehouse of bales on hand.

**FINDING II: Missing Documentation of Hay Inventory Purchases**

We are in agreement with the finding. An effort is made to obtain three quotes. There were times that the third vendor did not respond in a timely manner so we proceeded with the purchase. We did utilize Emergency Funds but all revenues were all re-deposited back into Fund 17.

**FINDING III: Lack of Controls over Hay Sales including Cash Receipts**

We are in partial agreement with the finding. Upon purchase of hay, each customer is given a pre-numbered receipt. In addition (although not required), a colored ticket with number is given to customer, which is retained by the loader to sign off on and return at the end of the day for reconciliation with cash receipts. A daily log sheet is kept in the front office with a



*running total of bales on hand. There are times that the AMS is the only personnel in the office for the day and segregation of duties is not possible. She provides customer service by accepting payment and delivery of goods. We would have very upset customers if we had to tell them to come back later in the day or the next day to pick up their goods. The Daily Cashier Balance Sheet is completed by personnel closing out the register for the day. At times, there is only one personnel in the office. This log is reconciled with the cash receipt book and cash on hand. There was a miscommunication between the AMS and ITG about procedures for entering cash receipts. AMS was told to enter by dates not receipt number. She did so, but later was told that these cash receipts were to be entered by cash receipt number (which she was practicing prior). This has been corrected and all cash receipts are now entered by receipt numbers.*

**FINDING IV: Inadequate Tracking of Fixed Assets and Inventory**

*We are in partial agreement of the finding. All assets had been tagged with the exception of the heavy equipment at the time of audit. Every fiscal year, an annual Chapter Exposure Summary is completed and submitted to Department of Risk Management to obtain insurance coverage. On an annual basis a physical inventory for Jeddito Chapter is done, reviewed and signed by Community Services Coordinator. The Department of Risk Management will send invoice for premium to the chapter upon review and approval of a Chapter Exposure Summary. The Jeddito Chapter has been receiving their invoice and paying the premium to obtain insurance coverage for chapter assets on a yearly basis. The untagged heavy equipment have tagged and all pertinent information (serial no., etc.) has been put on file.*

**FINDING V: Missing Documentation and Authorization for Disbursements**

*We are in agreement with the finding.*

**FINDING VI: Inadequate Hiring Documentation**

*We are in partial agreement with the finding. Timeline was of the essence in the Summer Youth Project where we posted openings for 8 days and did a group interview which included written questionnaire, orientation of program, etc. to a group of 25 high school and college students. No officials were available for interview, so this group interview session was conducted by CSC and AMS. Sign in sheets, copy of questionnaire, flyer were presented as documentation. Yes, there were forms missing but have since been located and filed in the folders of all youth and PEP participants. Each job opening is advertised with flyer indicating the application intake dates; hourly wage; job description and minimum qualification; duration of job. Upon hire, there are other forms that is completed by employee such as W-4, etc. The chapter personnel and chapter officials practice fairness in the interview and selection of employees. The chapter personnel makes every effort to have an interview panel that consist of standing committee, officials, chapter personnel, CHR and community members when they are available to assist.*

**FINDING VII: Lack of Financial Assistance Eligibility Documentation**

*We are disputing a portion of the findings. Financial assistance rendered to recipients were in accordance with policy and procedures for Student Scholarship and Veterans. Copies of In-House Plan of Operation for Scholarship and Veterans Assistance were submitted for review and consideration. There is no indication that these were fully reviewed and considered.*

***FINDING VIII: Incorrect Expenditure of Emergency Funds***

*We are in agreement with the findings. We followed advisement by the former LGSC to utilize the Emergency Funds when needed to pay for day to day operational cost for heating, cooling, etc. for the Chapter and the Senior Citizen due to limited Land Claims Funds. These funds were also use to purchase hay and replenished with revenues derived from it.*

***FINDING IX: Payroll Tax Penalties and Late Fees***

*We are in agreement with the findings. All the tax issues were for tax years 2006-2009 in the amount of an estimated \$27,000. The current chapter administration inherited this in 2010 and made an effort to resolve as much as they could with limited funds. Today, there remains a balance of \$7,500.*

*The Jeddito Chapter will work on a Corrective Action Plan to resolve the findings. Thank you for your time and assistance in this matter.*

*Sincerely,*



*Terry J. Yazzie*

*Terry J. Yazzie, President*

***Xc: Rodger Paul, Vice President, Jeddito Chapter  
Nancita Bahe-Nez, Secretary-Treasurer, Jeddito Chapter  
Alton Shepherd, Council Delegate***