

## **OFFICE OF THE AUDITOR GENERAL**

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### **The Navajo Nation**

#### **A Fifth Follow-up Review of the Capital Improvement Office/ Division of Community Development Corrective Action Plan Implementation**

**Report No. 17-10  
December 2016**

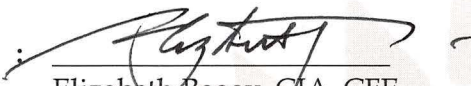
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**M-E-M-O-R-A-N-D-U-M**

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**FROM** :   
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Auditor General  
**OFFICE OF THE AUDITOR GENERAL**

**DATE** : December 21, 2016

**SUBJECT** : Fifth Follow-up Review of the Capital Improvement Office/Division of Community Development Corrective Action Plan Implementation

The Office of the Auditor General herewith transmits Audit Report no. 17-10, a Fifth Follow-Up Review of the Capital Improvement Office/Division of Community Development Corrective Action Plan Implementation. The objective for this fifth follow-up review was to determine whether the Capital Improvement Office/Division of Community Development fully implemented their corrective action plan.

Follow-up Results

Finding	Status of CAP
The Capital Improvement Office needs to strengthen project selections and appropriation procedures.	Not Implemented
The Capital Improvement Office needs to ensure that matching funds are available for projects as scheduled.	Not Implemented
Large carryover balance demonstrates ineffective use of capital improvement funds.	Not Implemented

Conclusion

The Capital Improvement Office/Division of Community Development did not fully implement their corrective action plan. As a result, the audit findings listed above remain unresolved. Accordingly, the current sanction imposed on the Capital Improvement Office and the Department Manager cannot be lifted in accordance with 12 N.N.C., Section 9(c).

xc: Arbin Mitchell, Chief of Staff  
**OFFICE OF THE PRESIDENT/VICE PRESIDENT**  
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## Table of Contents

	<u>Page</u>
<b>INTRODUCTION AND BACKGROUND</b>	<b>1</b>
<b>OBJECTIVE, SCOPE AND METHODOLOGY</b>	<b>1</b>
<b>REVIEW RESULTS</b>	<b>3</b>

## **INTRODUCTION AND BACKGROUND**

This report summarizes the results of our fifth review to determine whether the Capital Improvement Office has implemented a corrective action plan that was developed in 2001. Audit report no. 00-29 and the resulting corrective action plan developed by the Capital Improvement Office were approved by the Budget and Finance Committee on September 4, 2001.

The first follow-up review report released in June 2003 concluded that the Capital Improvement Office failed to implement their corrective action plan. The following sanctions were imposed at that time:

1. 10% withholding of General Funds appropriated to the program
2. 20% withholding of the Capital Improvement Office manager's annual salary.

In 2005 a second follow-up review was conducted by the Office of the Auditor General. A third follow-up review was conducted in 2008, and a fourth follow-up review was conducted in 2014. Each follow-up review concluded that the Capital Improvement Office failed to fully implement their corrective action plan. Consequently, the sanctions imposed against the program and its manager were not lifted.

The Office of the Controller will withhold these funds until the Capital Improvement Office fully implements its corrective action plan pursuant to Title 12 N.N.C. §9.

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

The objective of this fifth follow-up review was to determine whether the Capital Improvement Office has fully implemented their corrective action plan.

To meet the review objective, we performed the following procedures:

- Interviewed the program staff and identified 270 capital improvement projects.
- Reviewed Capital Improvement Office policies, procedures, standard forms, reports and other applicable records relevant to our follow-up review objectives.
- Identified 132 out of 270 projects as capital improvement projects that were approved by the Navajo Nation Council in April 2014 totaling \$296 million. Capital Improvement Plan projects consisted of non-matching and matching funded projects. From the population of 132 projects, we isolated the following project types and pulled and tested a sample of documentation from each as follows:
  - Isolated 89 non-matching funded projects from the 132-project list and selected a sample of 20 projects to verify if proposals have completed documentation and if incomplete proposals were returned to applicants.
  - Isolated 43 matching funded projects from the 132-project list and selected a sample of 20 to verify documented evidence of matching funds pledged or cited by applicants.
- Identified 138 out of 270 projects as on-going projects funded by Navajo Nation General Fund going back to 1995 with a cumulative total of \$39 million. These on-going projects

consisted of construction that was completed, but not closed; projects that were not fully funded; and projects that were not ready for construction. From the population of 138 projects, we isolated the following project types and pulled and tested a sample of documentation from each as follows:

- Isolated 58 completed construction projects which were not closed from the 138-project list and selected a sample of 20 projects to verify that the required documentation confirmed that the projects have been completed based on the expenditure and performance reports.
- Isolated 52 projects which were not fully funded from the 138-project list and selected a sample of 20 projects to verify required documentation and to confirm that the project had been planned and prioritized for completion based on the expenditure and performance reports.
- Isolated 28 projects which were not ready for construction from the 138-project list and selected a sample of 20 projects to verify required documentation and confirm that the project had been planned and prioritized for completion based on the expenditure and performance reports.

Audit samples were selected using non-statistical and judgmental sampling methods.

The Auditor General and staff express appreciation to the Capital Improvement Office for their cooperation and assistance throughout this review.

## Review Results

The Capital Improvement Office (CIO) did not implement its Corrective Action Plan. The fifth follow-up review revealed the following outstanding findings:

<b>AUDIT FINDING I: CIO needs to strengthen project selection and appropriation procedures.</b>	
<b>CORRECTIVE ACTION</b>	<b>STATUS OF CORRECTIVE ACTION</b>
<ol style="list-style-type: none"> <li>1. Use the checklist to ensure that proposals have completed documentation. Return incomplete proposals to applicants with a deadline to resubmit.</li> </ol>	<p>46 (or 35%) projects examined from the 132-project list had incomplete documentation. Of the 46 projects, CIO directly contacted the 27 Chapters/Programs to submit documentation but they did not cooperate. The high percentage of projects examined that had incomplete documentation indicates that the \$296 million Capital Improvement Plan is potentially comprised of ill-planned projects and poorly ranked projects.</p>
<ol style="list-style-type: none"> <li>2. Provide CIO policies and procedures to Chapters/Programs for documenting need assessment. Track and confirm receipt of policies and notices to recipients.</li> <li>3. Send advance notice of annual CIO proposal submission deadline of March 1st each year.</li> <li>4. Send notice to multi-disciplinary committee and convene committee by 1st Monday in April of each year.</li> <li>5. Conduct orientation with multi-disciplinary committee utilizing approved policies and procedures.</li> <li>6. Conduct Capital Improvement Plan proposal review/ranking using the established and approved evaluation criteria by April of each year.</li> <li>7. Summarize results of Capital Improvement Plan proposal evaluation by April of each year.</li> <li>8. Develop the Navajo Nation capital improvement plan and capital budget with a list of scores from highest to lowest ranking.</li> </ol>	<p>There was no project selection since 2014. Therefore, these corrective actions were not implemented by CIO and excluded from the fifth follow-up review.</p>
<p><b>Audit issue resolved: No</b></p>	

**AUDIT FINDING II: CIO Needs to ensure that matching funds are available for projects as scheduled.**

CORRECTIVE ACTION	STATUS OF CORRECTIVE ACTION
1. Identify matching funds pledged or cited by applicants in their proposals.	43 projects from the 132-project list had matching funds. Of this amount, 15 projects examined under-reported \$2.2 million in matching funds and 5 projects examined over-reported \$873,656 in matching funds. CIO did not accurately report the matching funds. As a result, projects that had matching funds were inaccurately evaluated and prioritized.
2. Request evidence of matching funds pledged or cited by applicants.	Based on 20 projects that we sampled and tested, the matching funds for 5 projects were not supported by documentation. Without documentation, projects are not accurately evaluated.
3. Confirm the matching funds pledged or committed by funding agency.	
<b>Audit issue resolved: No</b>	

**AUDIT FINDING III: Large carryover balance demonstrates ineffective use of capital improvement funds.**

CORRECTIVE ACTION	STATUS OF CORRECTIVE ACTION
1. Analyze all outstanding projects compromising the large carryover of unexpended capital improvement fund.	IMPLEMENTED
2. Develop a monthly expenditure report identifying percentage of expenditures against budget.	IMPLEMENTED
3. Based on the expenditure and performance reports, plan and prioritize existing projects for completion as follows:	Missing or incomplete documentation shows that CIO is not effectively monitoring the \$39 million on-going capital improvement projects. Without documentation, analyzing projects accurately is impractical and it is impossible to gauge percentage of completion to plan and prioritize existing projects for completion.
a. Construction completed projects, not closed out	19 out of 20 completed construction projects that we sampled and tested have missing or incomplete documentation, thus the projects were not closed. The Navajo Nation accounting system shows \$4 million capital improvement funds have accumulated since 2003 and remain unspent that CIO can reallocate to other capital improvements projects.

b. Projects not fully funded	20 out of 20 projects that we sampled and tested which were not fully funded have missing or incomplete documentation. As a consequence, projects are delayed from completion because CIO did not have complete information on funding shortfall.
c. Projects not ready for construction	20 out of 20 projects that we sampled and tested which were not ready for construction have missing or incomplete documentation. As a consequence, \$5.5 million allocated for these projects remain unspent. Some projects were funded since 1995.
d. Set up files for each project	The filing system was in disarray. Several projects did not have files set up and/or multiple files were set up for the same projects, and there were loose documents in the files. As a result, it is difficult to determine the status of the on-going projects.
e. Develop a standardized and automated project tracking system	The project tracking system is neither standardized nor automated. This results in questionable data on the Ongoing Project Status Report regarding the "percentage of construction" for each project.
f. Provide notice to project sponsors, vendors, contractors and other appropriate parties of construction completed projects, that their accounts have been outstanding for more than two years	Of the 20 on-going projects that we sampled and tested, first or second notices regarding outstanding accounts and non-expenditure of funds on 20 projects were not sent out to the Chapters/Programs. As a result, the Chapters/Programs were not aware that capital improvement funds that were allocated to them remain unspent.
g. Reorganize CIO's operating procedures for efficient management of capital projects.	Although CIO was merged with other departments within the DCD, the efficient management of capital projects could not be determined implemented because the amendments to the DCD plan of operation was recently approved by RDC on Oct. 25, 2016 via RDCO-77-16 and the new manager was just hired on November 21, 2016.
<b>Audit issue resolved: No</b>	



## CONCLUSION

The 132 projects listed in the Capital Improvement Plan that was approved by the Navajo Nation Council in 2014 are comprised of ill-planned projects since required documentation was missing or incomplete for project proposals and the matching funds for projects were incorrectly calculated and reported. The Capital Improvement Office should re-evaluate the capital project list and remove from the list those projects with incomplete documentation. The amended list should be presented to the Navajo Nation Council for their consideration.

Most corrective actions in the corrective action plan approved by the Budget and Finance Committee in 2001 have not been implemented, thus the audit issues remain unresolved. Consequently, the sanctions currently being imposed against the Capital Improvement Office and its department manager cannot be lifted in accordance with 12 N.N.C. § 9(B) and (C).

In fiscal year 2017, the Division of Community Development was reorganized resulting in the Capital Improvement Office being merged with other departments and the creation of the Capital Projects Management Department with a newly hired Department Manager. For that reason, Office of the Auditor General will schedule a revisit in 12 months after the issuance of this report to determine whether the Capital Projects Management Department and the Department Manager implemented the Corrective Action Plan.