

## **OFFICE OF THE AUDITOR GENERAL**

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### **The Navajo Nation**

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

**Report No. 17-26  
March 2017**

Performed by:  
Karen Briscoe, Principal Auditor  
Stacy Manuelito, Auditor





March 31, 2017

Valerie Kelly, President  
**LEUPP CHAPTER**  
CPO Box 5013  
Leupp, AZ 86035

Dear Ms. Kelly,

The Office of the Auditor General herewith transmits Audit Report No. 17-26, a Follow-Up Review of the Leupp Chapter Corrective Action Plan Implementation. The follow-up was conducted in accordance with 12 Navajo Nation Code (N.N.C.) Section 7 to determine the current status of the corrective action plan. The Leupp Chapter developed their corrective action plan in response to the August 22, 2014 audit report no. 14-20. The audit report and the corrective action plan were approved by the Budget and Finance Committee on April 7, 2015, per resolution no. BFAP-10-15.

We reviewed the Leupp Chapter's records for the six month period of June 2016 to November 2016. The Corrective Action Plan listed 44 corrective measures to address the eight audit findings. Of the 44 corrective measures, the Chapter implemented 22 (or 50%) corrective measures. The Chapter did not implement 17 (or 39%) corrective measures and 5 (or 11%) were considered as cannot be determine due to no activity. A summary of the current status of the corrective measures approved by the Budget and Finance Committee in April 2015 is presented below.

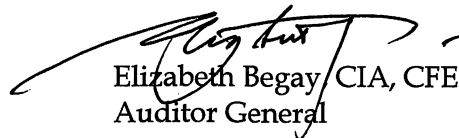
Prior Audit Findings	Number of Corrective Action Components			Audit Finding Resolved
	IMPLEMENTED	NOT IMPLEMENTED	CANNOT BE DETERMINE DUE TO NO ACTIVITY	
I. Ineligible recipients receive housing assistance.	3	0	0	Yes
II. Capital Outlay was not expended in accordance with the intent of the Navajo Nation Council.	2	0	1	Yes
III. Expenditures were not authorized and supported with documentation.	6	3	0	No
IV. Expenditures and assets were not accurately posted to the accounting system.	2	2	0	No
V. Chapter employees were not accurately compensated.	8	0	0	Yes

VI. The Chapter is not in compliance with State unemployment regulations.	1	0	0	Yes
VII. Chapter property/ equipment, resale items, and housing material were not safeguarded	0	5	4	No
VIII. Chapter officials are not monitoring chapter activities and collaborating with the Chapter administration.	0	7	0	No
<b>Total:</b>	<b>22</b>	<b>17</b>	<b>5</b>	<b>44</b>

**CONCLUSION**

Title 12, Navajo Nation Code (N.N.C.) Section 8 imposes upon the Leupp Chapter the duty to implement the corrective action plan according to the terms of the plan. As an LGA Certified Chapter, the Leupp Chapter is held to a higher standard regarding the implementation of their Five Management System. However, during this follow-up review, the Chapter did not fully implement the corrective action plan to resolve the audit findings reported to the Chapter since 2014. More importantly, the Chapter did not provide needed services to the Chapter membership. Therefore, the Office of the Auditor General recommends imposing sanctions on the Leupp Chapter and officials in accordance with 12 N.N.C. Section 9. The recommended sanctions are section 9(b): withhold 10% of the Chapter’s operating budget allocated by the Navajo Nation government and section 9(c): withhold 20% of the stipend of three Chapter officials. Once the Leupp Chapter fully implemented their corrective action plan, all withheld funds under section 9(b) and 9(c) will be release to the Leupp Chapter. See attached Exhibit A for the review results.

Sincerely,



Elizabeth Begay/CIA, CFE  
Auditor General

xc: Angela Cody, Vice -President  
Calvin Johnson, Secretary/Treasurer  
Walter Phelps, Council Delegate  
**LEUPP CHAPTER**  
Johnny Johnson, Department Manager II  
**ADMINISTRATIVE SERVICE CENTER/DCD**  
Chrono

PRIOR FINDINGS, CORRECTIVE ACTIONS AND CURRENT STATUS

PRIOR FINDING I: Ineligible recipients receive housing assistance.

Chapter Corrective Actions	Status of Corrective Action
1. Chapter administration will ensure applications with supporting documentation are submitted by applicants to determine eligibility.	Implemented
2. Chapter Manager and Chapter officials will evaluate and rank applicants to determine eligibility. Only applicants that are eligible should be approved and assisted. Denials will be returned to requestor or kept on file. Approval will be forwarded to Administrative Assistant.	Implemented
3. Chapter Administrative Assistant will process the checks to vendors and Chapter Manager and Chapter Secretary/Treasurer will review and approve supporting documents before co-signing the checks.	Implemented
<b>Audit Issue Resolved: Yes</b>	

PRIOR FINDING II: Capital Outlay was not expended in accordance with the intent of the Navajo Nation Council.

Chapter Corrective Actions	Status of Corrective Action
<b>Issue 1: Capital Outlay was expended for administrative and unidentified expenses.</b>	
1. Chapter Manager and Chapter officials will prepare a budget for the Capital Improvement Projects and ensure that it is expended on capital improvement and economic development.	Implemented
2. Chapter officials will present the budget for approval by the community membership before initiating the Capital Improvement Projects.	Implemented
<b>Audit Issue Resolved: Yes</b>	
<b>Issue 2: Chapter projects were not properly managed.</b>	
1. Chapter Manager and Chapter officials will develop a checklist on planning construction projects, advertise, and select qualified contractor. Avoid construction during seasonal weather and monitor the chapter projects.	<i>Cannot determine due to capital outlay fund was used as matching with NTUA and CIO powerline extension project. The Chapter did not directly manage the capital projects.</i>
<b>Audit Issue Resolved: No</b>	

PRIOR FINDING III: Expenditures were not authorized and supported with documentation.

Chapter Corrective Actions	Status of Corrective Action
<b>Issue 1: Chapter internally generated revenue was expended without an approved budget.</b>	
1. Chapter Manager and Chapter officials will prepare a budget for internally generated chapter revenue.	<i>Not implemented.</i> The Chapter administration posted the budget for the internally generated revenue in the amount of \$49,730. However, the budget was not presented to the Chapter membership for adoption. Any subsequent expenditure is unauthorized.
2. Chapter officials will present the budget to the community for approval via resolution.	
3. Chapter Administrative Assistant will post budget according to the adopted budget via resolution.	
<b>Audit Issue Resolved: No</b>	

Issue 2: Unauthorized inter-fund transfers between chapter funds.	
1. Chapter administration will inform Chapter officials of any inter-fund budget transfers for approval.	Implemented
2. Chapter officials will present the inter-fund transfer to the community for approval via resolution.	Implemented
3. Chapter Administrative Assistant will post the budget according to the budget resolution.	Implemented
<b>Audit Issue Resolved: Yes</b>	
Issue 3: No documentation to justify the use of chapter resources.	
1. Chapter administration will ensure all supporting documentations are attached for Capital Improvement Projects, travel and operating expenditures.	Implemented
2. Chapter Manager and Chapter Secretary/Treasurer will review and ensure that all supporting documentation is attached before cosigning checks.	Implemented
3. Chapter administration will ensure that all documents are filed according to the records management policies and procedures.	Implemented
<b>Audit Issue Resolved: Yes</b>	

**PRIOR FINDING IV: Expenditures and assets were not accurately posted to the accounting system.**

Chapter Corrective Actions	Status of Corrective Action
Issue 1: Chapter expenditures were not properly classified with the correct GL Code (Object Account).	
1. Chapter Administrative Assistant will use the chart of accounts to properly classify goods or services procured to the accounting system. Unidentified and miscellaneous GL code use will be kept at a minimum.	Implemented
2. Chapter Manager and Chapter Secretary/Treasurer will review and ensure goods or services procured are properly classified and posted to the accounting system.	Implemented
<b>Audit Issue Resolved: Yes</b>	
Issue 2: Fixed assets were not recorded in the accounting system and the financial statements.	
1. Chapter Administrative Assistant will post the fixed asset information to the accounting system.	<i>Not implemented.</i> The Chapter did not develop a fixed assets inventory. Additionally, the Chapter officials acknowledged that the Chapter did not have its fixed asset inventory complete during the entrance meeting. Therefore, there were no fixed assets reported on the financial statement.
2. Chapter Manager and Chapter officials will reconcile the posting of the fixed assets and the fixed asset listing.	
<b>Audit Issue Resolved: No</b>	

**PRIOR FINDING V: Chapter employees were not accurately compensated.**

Chapter Corrective Actions	Status of Corrective Action
<b>Issue 1: Administrative staff annual leave accrual rate was not approved.</b>	
1. Chapter officials will clearly define the leave accrual rate for permanent status employees.	Implemented
2. Chapter officials will document and approve the accrual rates that the chapter will be using and Chapter Administrative Assistant will set up the rates in the accounting system.	Implemented
3. Chapter Secretary/Treasurer will review the posted rates to ensure approved accrual rates are posted.	Implemented
<b>Audit Issue Resolved: Yes</b>	
<b>Issue 2: Questionable wages paid to administrative staff.</b>	
1. Chapter Administrative Assistant will post worked hours and sick/annual leave taken to reflect the approved timesheets.	Implemented
2. Chapter Manager and Chapter Secretary/Treasurer will review posting of worked hours and sick/annual leave taken to ensure it reflects the timesheets.	Implemented
<b>Audit Issue Resolved: Yes</b>	
<b>Issue 3: Payroll checks were released 2-6 days early prior to pay periods ending.</b>	
1. Chapter Administrative Assistant will process payroll checks according to MIP pay schedule.	Implemented
2. Chapter Manager and Chapter Secretary/Treasurer will review the posting to ensure checks are not processed early.	Implemented
<b>Audit Issue Resolved: Yes</b>	
<b>Issue 4: Questionable bonus pay paid to staff.</b>	
1. Chapter officials will do a performance evaluation on a quarterly basis. Based on results of performance evaluation if overall rating is "Significantly Exceeds Standards" or "Outstanding," the Chapter officials will present the recommendation of bonus to the community membership for approval.	Implemented
<b>Audit Issue Resolved: Yes</b>	

**PRIOR FINDING VI: The Chapter is not in compliance with State unemployment regulations.**

Chapter Corrective Actions	Status of Corrective Action
1. The Chapter Manager will report wages and pay unemployment taxes for its employees.	Implemented
<b>Audit Issue Resolved: Yes</b>	

**PRIOR FINDING VII: Chapter property/equipment, resale items, and housing materials were not safeguarded.**

Chapter Corrective Actions	Status of Corrective Action
<b>Issue 1: Annual physical count of Chapter property/equipment was not performed.</b>	
1. Chapter administration and officials will conduct a physical inventory and update the inventory listing of any new purchases or any disposals of chapter property	<i>Not Implemented.</i> The Chapter has conducted a physical inventory of its property/equipment as of December 15,

<p>and equipment on an annual basis.</p>	<p>2016. However the physical inventory list provided during the follow-up review was incomplete due to missing pertinent information such as property tags, acquisition date, and values. Additionally, the Chapter officials acknowledge during the entrance meeting that they did not have all the pertinent information documented on the inventory listing. In the absence of information, the Chapter cannot provide reasonable assurance that all property owned and controlled by the Chapter is accounted for on chapter premises.</p>
<p><b>Audit Issue Resolved: No</b></p>	
<p><b>Issue 2: Perpetual inventory was not maintained for resale items.</b></p>	
<p>1. Chapter administration or PEP workers will make a physical count on any resale items at time of delivery and post the items delivered in the accounting system.</p>	<p><i>Cannot determine due to no activity.</i> During the audit scope, the chapter did not have any resale activity. Additionally, during the entrance meeting the Chapter officials acknowledge that they did not have any resale activity.</p>
<p>2. Chapter Administrative Assistant or Office Assistant will issue cash receipts on what was sold and record the sale and any spoilage or loss to the accounting system on a daily basis.</p>	
<p>3. Based on cash receipts on items sold, Chapter administration and Chapter officials will do monthly physical inventory count and forward to the Chapter Manager, who will reconcile the physical count to the MIP perpetual inventory system; adjust for any damage/spoilage.</p>	
<p>4. Chapter officials will review the perpetual inventory of resale items activity.</p>	
<p><b>Audit Issue Resolved: No</b></p>	
<p><b>Issue 3: No inventory controls for unused housing materials.</b></p>	
<p>1. Chapter Administrative Assistant will create an inventory control sheet for the unused housing materials in the warehouse.</p>	<p><i>Not Implemented.</i> The Chapter has a large quantity of building materials stored at the Chapter warehouse but does not have a perpetual inventory in place to account for items purchased, used, spoiled, or lost. As a result, unused material can be stolen without detection.</p>
<p>2. Chapter PEP workers will do inventory of housing materials and supplies in the warehouse.</p>	
<p>3. Chapter PEP workers will sign in and out for what they take and return.</p>	
<p>4. Chapter Manager and Chapter officials will reconcile the inventory control sheet and what is in the warehouse on a monthly basis. If any discrepancies, it will be resolved immediately.</p>	
<p><b>Audit Issue Resolved: No</b></p>	

**PRIOR FINDING VIII: Chapter officials are not monitoring chapter activities and collaborating with the chapter administration.**

Chapter Corrective Actions	Status of Corrective Action
<b>Issue 1: Monitoring of Chapter activities was not performed.</b>	
1. Chapter officials and administration will communicate on a daily basis and make themselves available to discuss chapter activities and operations.	<i>Not Implemented.</i> During the audit, the auditors noted that there is limited collaboration between chapter officials and staff. According to the Chapter staff there is no staff meeting and the Chapter officials only showed up at the Chapter to sign chapter checks and during chapter meetings. Without sufficient and open communication the chapter cannot carry out duties and responsibilities in an effective and efficient manner for the benefit of the community.
2. Chapter administrative staff will designate an individual to monitor certain chapter projects or operations according to FMS and Title 26.	<i>Not implemented.</i> The Chapter Manager solely manages chapter operations and payments. As a result, over \$200,000 chapter funds budgeted for housing, temporary employment, and capital projects remain unspent despite community needs.
3. Chapter Secretary/Treasurer will monitor the accounting system, ensure all required documents are attached before cosigning checks, and documents are filed according to records policies and procedures. If any discrepancies, it will be resolved immediately.	<i>Not Implemented.</i> The Chapter Secretary/Treasurer did not ensure all documents are properly filed. The Chapter Secretary/Treasurer acknowledged that he did not verify the Chapter's internally generated fund approved budget, and a fixed asset (capital) inventory was developed. As a result, Chapter transactions were not supported and assets were not accounted for.
<b>Audit Issue Resolved: No</b>	
<b>Issue 2: Poor working relationship between Chapter administration and officials.</b>	
1. Chapter officials and administration will communicate on a daily basis and make themselves available to discuss chapter activities and operations.	<i>Not Implemented.</i> The Chapter officials and the chapter staff did not work together to provide efficient services to the Leupp community. The Chapter Manager and the Chapter Secretary/Treasurer disagreed in managing chapter operation, and roles and responsibilities of the officials and staff. We noted delays in approving the carry-over budget, presenting the monthly financial reports, providing services to the chapter community, and overall inefficiencies in Chapter operation.
2. Chapter administrative staff will delegate an individual to monitor or complete certain duties and responsibilities according to FMS and Title 26.	
3. Chapter officials and administration will communicate and make decisions in the best interest of the chapter community.	
4. Chapter officials will share information to the community membership at chapter meetings.	
<b>Audit Issue Resolved: No</b>	