

## **OFFICE OF THE AUDITOR GENERAL**

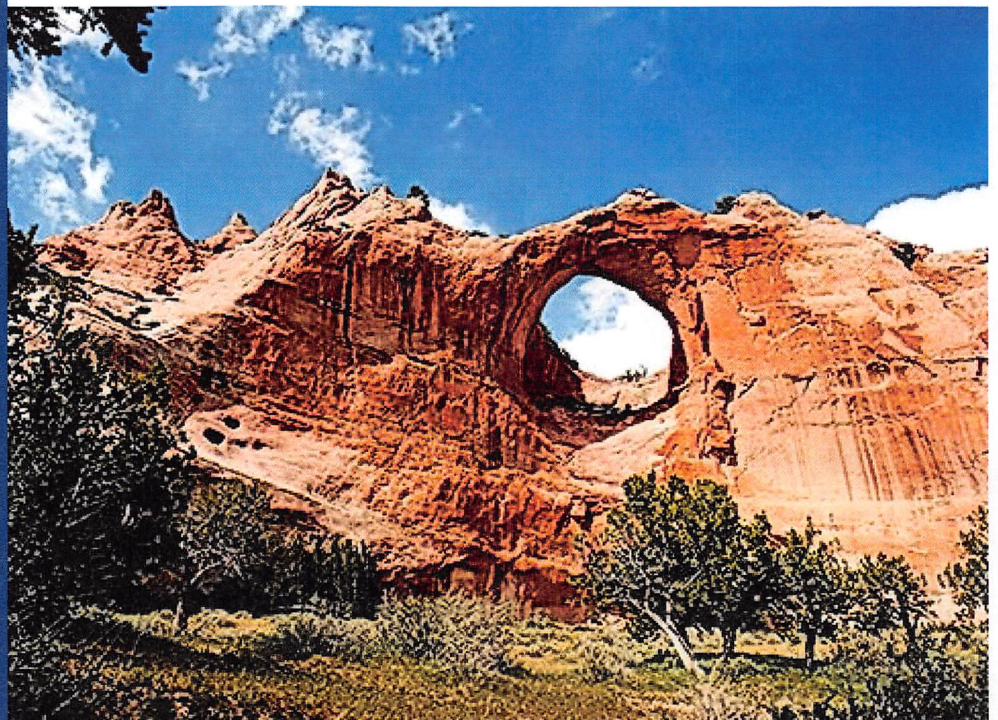
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### **The Navajo Nation**

# **Follow-up Internal Audit of the Special Review of P-Card Purchases by the Navajo Division of Transportation (NDOT) Staff Corrective Action Plan Implementation**

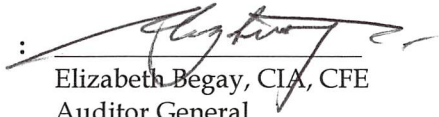
**Report No. 17-18  
January 2017**

**Performed by:  
REDW LLC**



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

TO : Garrett Silversmith, Division Director  
NAVAJO DIVISION OF TRANSPORTATION

FROM :   
Elizabeth Begay, CIA, CFE  
Auditor General  
OFFICE OF THE AUDITOR GENERAL

DATE : January 30, 2017

SUBJECT : Follow-up Internal Audit of the P-card Purchases by the Navajo Division of Transportation Staff

The Office of the Auditor General herewith transmits Audit Report no. 17-18, A Follow-Up Internal Audit of the P-card Purchases by the Navajo Division of Transportation (NDOT) staff Corrective Action Implementation. The Navajo Nation Follow-up Internal Audit was conducted, in conjunction with REDW LLP, Certified Public Accountants, to determine whether NDOT P-card charges complied with Navajo Nation procurement and travel policies and procedures, and to determine if NDOT exercised adequate internal control over P-cards. The 2013 audit report and the corrective action plan were approved by the Budget and Finance Committee on October 3, 2013, per resolution BFO-39-13.

### Follow-up Results

The corrective action plan listed 20 corrective measures to address the audit findings. Of the 20 corrective measures, the Navajo Division of Transportation implemented 16 (or 80%) corrective measures, leaving 4 (or 20%) not implemented. The follow-up results were summarized in the executive summary of the audit report.

### Conclusion

The Navajo Division of Transportation has implemented 16 out of 20 corrective measures from the corrective action plan approved by the Budget and Finance Committee on October 3, 2013, per resolution BFO-39-13. In doing so, the Navajo Division of Transportation has reasonably addressed the audit findings from the 2013 Special Review of P-card Purchases by NDOT staff. Therefore, the Office of the Auditor General does not recommend sanctions on the Navajo Division of Transportation in accordance with 12 N.N.C. Section 9.

### Attachment(s)

xc: Arbin Mitchell, Chief of Staff  
OFFICE OF THE PRESIDENT/VICE PRESIDENT  
Pete K. Atcitty, Chief of Staff  
OFFICE OF THE SPEAKER  
Chrono

# **The Office of the Auditor General - Navajo Nation Follow-up Internal Audit of the P-card Purchases by the Navajo Division of Transportation Staff Corrective Action Plan Implementation**

## **Executive Summary**

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

The Navajo Nation Office of the Auditor General conducted a Special Review in February 2013 of P-card (purchasing card) activities within the Navajo Division of Transportation (NDOT). The Special Review was to determine whether NDOT P-card charges complied with Navajo Nation procurement and travel policies and procedures and to determine if NDOT exercised adequate internal controls over P-cards.

REDW performed a follow-up internal audit to determine the current status of the Corrective Action Plan (CAP), which was developed by NDOT management in response to the 2013 Special Review. To gain an understanding of the processes and controls in place, we interviewed selected personnel, read applicable portions of the Navajo Nation Code (N.N.C.) and read the P-card, travel, procurement and per diem policies and procedures (P&Ps). In addition, we selected samples of P-card transactions, both operational and travel-related, and P-card reconciliations and assessed supporting documentation to determine if it was adequate and in compliance with P&Ps.

## **SUMMARY OF THE INTERNAL AUDIT RESULTS**

Throughout the course of the follow-up internal audit, we identified areas where improvements had been made. Specifically, the following **significant CAP components had been implemented** since the 2013 Special Review:

- Each department assigned P-card reconcilers and approvers to help ensure that statements were complete, in accordance with established policies, and coded correctly in the Financial Management Information System (FMIS).

- NDOT has only one operational P-card for purchases. All other P-cards are for travel use only.
- P-cards were not being used to purchase fuel for vehicles.
- A P-card reconciliation process was implemented to ensure all receipts were on file and that transactions reconciled to the monthly Wells Fargo statement and FMIS activity.

There were significant areas where the CAP had not been implemented and therefore issues were not resolved. Specifically, the following **significant CAP components had not been implemented**:

- Regular staff training on Navajo Nation procurement and travel P&Ps and P-card expense reporting was not implemented.
- One of the six NDOT departments was not holding P-cards until an approved TA was submitted, resulting in a P-card being misused.
- Some P-card transactions tested did not comply with P&Ps including the lack of an approved purchase requisition prior to purchase, missing itemized receipts, and what appeared to be purchasing meals for someone other than the P-card holder.
- Travel expenses that exceed the authorized per diem limits did not have written justification for the activity.
- Procurement and travel violations identified in our transaction testing were not supported by disciplinary actions pursuant to the Navajo Nation Personnel Policies manual.

A summary of the current status of all 2013 CAP components is presented below.

<b>Prior Overall Finding</b>	<b>Number of CAP Components <u>IMPLEMENTED</u></b>	<b>Number of CAP Components <u>NOT IMPLEMENTED</u></b>	<b>Audit Issue Adequately Resolved?</b>
Navajo Nation Policies and Procedures were disregarded	11	4	Yes
Lack of adequate controls over P-Card activities	5	0	Yes
<b>Total</b>	<b>16 Implemented</b>	<b>4 Not Implemented</b>	

## **CONCLUSION**

Title 12, N.N.C. Section 8 imposes upon NDOT the duty to implement the CAP according to the terms of the plan. NDOT did implement the CAP. Details on all CAP components that were implemented and that were not implemented are included in the attached report.

REDW LLC

Albuquerque, New Mexico  
January 19, 2016

## **REDW CONTACT INFORMATION**

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**The Office of the Auditor General - Navajo Nation  
Follow-up Internal Audit of the P-Card Purchases by the  
Navajo Division of Transportation Staff Corrective Action  
Plan Implementation**

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# **The Office of the Auditor General - Navajo Nation Follow-up Internal Audit of the P-Card Purchases by the Navajo Division of Transportation Staff Corrective Action Plan Implementation**

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

## **INTRODUCTION AND BACKGROUND**

The Navajo Nation Office of the Auditor General (OAG) conducted a Special Review in February 2013 of P-card (purchasing card) activities within the Navajo Division of Transportation (NDOT) personnel. The review was to determine whether 1) NDOT P-card charges complied with Navajo Nation procurement and travel policies and procedures (P&Ps) and 2) NDOT exercised adequate internal controls over the use of the P-cards. The audit resulted in two significant findings with related recommendations.

REDW performed a follow-up internal audit to determine the current status of the Corrective Action Plan (CAP), which was developed by NDOT management in response to the 2013 Special Review. To gain an understanding of the processes and controls in place, we interviewed selected personnel, read applicable portions of the Navajo Nation Code (N.N.C.) and read the P-card, travel, procurement and per diem policies and procedures (P&Ps). We selected samples of P-card transactions, both operational and travel-related, and P-card reconciliations, and assessed supporting documentation to determine if it was adequate and in compliance with P&Ps. In addition, we physically observed safeguards over P-cards, assessed personnel training, and analyzed the process for handling disciplinary actions related to P-cards.

## **NDOT PURPOSE AND P-CARD FUNDING SOURCE**

NDOT was established within the Executive Branch of the Navajo Nation. The purpose of the division is to provide an effective and efficient transportation system and program within the Navajo Nation. NDOT is comprised of six departments that help complete the overall purpose and objective of NDOT:

1. Executive
2. Airport Management
3. Project Management

4. Transportation Planning Management
5. Roads Maintenance
6. Highway Safety

To support the travel and operating needs of the departments, NDOT staff received P-cards beginning in fiscal year 2008. NDOT's P-card use is limited strictly to travel related expenses for all NDOT personnel, with the exception of one operational P-card, which is to be used for operational needs that cannot be addressed with the standard procurement process. NDOT receives its funding from Navajo Nation General Fund appropriations, indirect cost allocations and internal (Fuel Excise Tax/Road Fund) and external special revenue funds.

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

The objective of this follow-up internal audit was to determine the current status of the CAP and to assess whether adequate progress had been made to consider the CAP "implemented."

The scope of this follow-up internal audit was limited to those policies, reports, processes and controls that related to the CAP for the period of March 2013 to September 2016. We focused on evaluating the progress made subsequent to the 2013 Special Review towards implementing all components of the CAP.

To gain an understanding of the processes and controls in place, we interviewed selected personnel and performed the following follow-up procedures:

- Read selected guidelines and P&Ps to assess whether they had been updated based on the Special Review and the related CAP.
- Selected a sample of 20 P-card transactions (ten operational and ten travel-related) that occurred in fiscal year 2016 out of a total population of 2,725 transactions to determine if the transactions and the related documentation were in compliance with P&Ps. Specifically, we tested each transaction to determine if:
  - The purchase was in line with the procurement P&Ps;
  - An approved purchase requisition or Travel Authorization (TA) Form was approved prior to the P-card purchase;
  - The transaction was not for any specified unauthorized purchases;
  - For any P-card misuse identified, documentation of disciplinary action was on file;
  - The original itemized receipt was on file; and,
  - For travel related transactions, the expense was related to the P-card user only (i.e. not another person) and that any per-diem claimed was within the approved rate unless otherwise approved and justified.
- Selected three current P-card users and tested for the required P-card agreement and documented training related to P-cards.
- Selected three P-card users, and for month of May 2016, assessed whether a reconciliation was performed on their P-card usage. We assessed whether support included documentation that the reconciliation was performed and approved, that all required receipts were attached,



that it appeared that compliance with P&Ps was verified, and that the activity was reconciled from the P-card statement to the FMIS.

## PRIOR FINDINGS, CORRECTIVE ACTIONS AND CURRENT STATUS

### *Prior Finding I: Navajo Nation Policies and Procedures were disregarded.*

**Prior Finding Summary:** “The P-cards were assigned to staff to facilitate more efficiency in the procurement of goods/services and travel activities while conducting Navajo Nation business. However, the P-cardholders are still compelled to adhere to applicable policies, procedures, rules, and regulations to ensure proper accountability of Navajo Nation funds. A review of the P-card activities of selected NDOT employees found lack of compliance with procurement rules and regulations as well as travel policies and procedures.

- Noncompliance with Navajo Nation procurement policies and procedures.
- Noncompliance with Navajo Nation travel policies and procedures.
- Travel expenses lacked itemized receipts.
- Pattern of exceeding travel per diem limits.
- No travel authorizations to justify P-card travel expenses.
- P-card charges were erroneously posted in the Wells Fargo and FMIS systems.
- Local meal charges are contrary to travel policies.”

<b>Corrective Actions</b>	<b><i>Current Status of Corrective Actions</i></b>
Provide staff training on NN procurement P&P, Travel P&P and P-card P&P in collaboration with Division of Finance (DOF)/ Office of the Controller (OOC). Training will be scheduled on a quarterly basis. Each staff will be required to re-sign the P-card use agreement.	<b><i>Not Implemented:</i></b> Management acknowledged that this corrective measure was not implemented. Although OOC no longer provides training, NDOT did not take the initiative to provide training internally for their staff.
All purchases shall be in compliance with the NN procurement P&P.	<b><i>Implemented</i></b>
An approved purchase requisition shall be in place prior to the use of an operational P-card for payment.	<b><i>Implemented</i></b>
NDOT ceased the usage of P-cards to procure any operational supplies with the exception of utilities, diesel fuel for heavy equipment, and repair and maintenance of heavy equipment. The Division has limited the use of two operational P-cards for these payments.	<b><i>Implemented</i></b>

<b>Corrective Actions</b>	<b><i>Current Status of Corrective Actions</i></b>
All misuse of P-cards shall be subject to disciplinary action pursuant to the NN personnel policies manual. All authorized P-card purchases by the user shall reimburse the Navajo Nation.	<b><i>Not Implemented:</i></b> Although management was able to provide an example of one P-Card disciplinary action taken, of the 20 P-card transactions tested, we identified nine instances of misuse in our transaction testing that were not supported by disciplinary action documentation.
Travel authorization shall be verified for funding availability and approved prior to travel. Employees claiming OOP must have an approved TA. Unauthorized use of P-cards without an approved TA shall not be allowed. Paying any travel expense(s) with P-cards for another employee(s) shall not be allowed.	<b><i>Implemented</i></b>
Each department will have an assigned P-card reconciler responsible to ensure travel expense(s) are in accordance with the NN Travel P&P. The reconciler shall scrutinize all travel expenses to ensure compliance with approved per diem rates. The reconciler shall submit a memorandum to the approver reporting any unauthorized expenditures for consideration.	<b><i>Implemented</i></b>
Each department will verify on the TA if a department vehicle is available for the duration of the approved travel. If no department vehicle is available, the employee will be authorized to use their private vehicles (POV) and claim the appropriate mileage and rates.	<b><i>Implemented</i></b>
No P-card shall be used for purchasing fuel for POVs and program vehicles.	<b><i>Implemented.</i></b>
Reconcilers and approvers shall scrutinize all itemized receipts during the reconciliation process to ensure that the traveler complied with per diem limits and overall travel polices.	<b><i>Implemented</i></b>
If no itemized receipts are provided, the expense will be deemed an unauthorized expense and the P-card holder will be required to reimburse the Navajo Nation.	<b><i>Implemented</i></b>

<b>Corrective Actions</b>	<b><i>Current Status of Corrective Actions</i></b>
Any travel expenses that exceed the authorized per diem limits will require written justification of the activity. If the expense is deemed an unauthorized expense, the P-card holder will be required to reimburse the Navajo Nation for the unauthorized expense.	<b><i>Not Implemented:</i></b> During our testing of the 20 P-card transactions, there were seven instances where the user exceeded the per diem limits without an approved justification memo by the employee or without requiring reimbursement to the Navajo Nation.
Each department will hold the employee(s) P-cards until there is an approved TA for business travel.	<b><i>Not Implemented:</i></b> One of the six NDOT departments did not hold employees P-cards until there was an approved TA for business travel. Based on discussions with management, an employee in that department misused their P-card over a weekend resulting in 13 unauthorized charges totaling approximately \$500.
Each department will have an assigned P-card reconciler responsible to ensure travel expenses are in accordance with the NN Travel P&P. The reconciler shall ensure that all P-card holders statements are complete and correct in accordance with established polices.	<b><i>Implemented</i></b>
Each department’s accountant shall reconcile monthly expenditure reports against FMIS to further detect erroneously posted charges.	<b><i>Implemented</i></b>

***Prior Finding II: Lack of Adequate Controls over P-card Activities***

**Prior Finding Summary:** “To determine the accountability of NDOT P-card activities, we evaluated the control environment within NDOT in terms of how P-cards are managed. Our evaluation found key controls were lacking and card restrictions were disregarded. Also, purchases were contrary to fund restrictions and NDOT management did not insist on proper justification for such purchases. Further, the cardholders, reconcilers and approvers not effectively performing their assigned duties and responsibilities resulted in poor controls over P-cards.

- No internal policies and procedures to ensure accountability of P-card activities.
- No P-card training on a regular and consistent basis.
- P-card charges posted to the Road Fund are questionable.
- P-card purchases for gifts and large quantities of promotional items are questionable.
- Cardholders, reconcilers and approvers are not fulfilling their responsibilities.”

<b>Corrective Actions</b>	<b><i>Current Status of Corrective Actions</i></b>
Amend the Federal Excise Tax (FET) Road Fund Management Plan, with RDC approval, to recognize Dept. of Airport, Dept. of Project Mgt., and Dept. of Roads with administrative functions to avoid future questionable expenditures.	<b><i>Implemented</i></b>
Navajo DOT ceased the usage of P-cards to procure any operational supplies with the exception of utilities, diesel fuel for heavy equipment, and repair and maintenance of heavy equipment. NDOT is in the process of procuring a service contract for repair and maintenance of heavy equipment within the year.	<b><i>Implemented</i></b>
The Division has limited the use of two operational P-cards for the above mentioned payments.	<b><i>Implemented</i></b>
Promotional items will be purchased in accordance to NN Procurement P&P.	<b><i>Implemented</i></b>
P-cards will no longer be used for purchasing gifts and promotional items.	<b><i>Implemented</i></b>

\* \* \* \* \*

We received excellent cooperation and assistance from NDOT personnel during the course of our internal audit. 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  
January 19, 2016