

OFFICE OF THE AUDITOR GENERAL

The Navajo Nation

A 3rd Follow-Up Review of the Shiprock Chapter Corrective Action Plan Implementation

**Report No. 17-06
November 2016**

Performed by:
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November 16, 2016

Duane Yazzie, President
SHIPROCK CHAPTER
P.O. Box 3810
Shiprock, NM 87420

Dear Mr. Yazzie:

The Office of the Auditor General herewith transmits Audit Report No. 17-06, a 3rd Follow-up Review of the Shiprock Chapter Corrective Action Plan Implementation. The follow-up review was conducted based on the Chapter's representation that the corrective action plan was fully implemented. The Shiprock Chapter developed their corrective action plan in response to the fiscal year 2008 audit report no. 08-03. The audit report and the corrective action plan were approved by the Budget and Finance Committee on May 20, 2008, per resolution no. BFMY-13-08.

For this follow-up review, we reviewed the Shiprock Chapter's records for the six month period of December 2015 to May 2016.

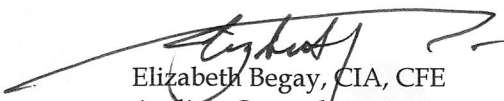
The Chapter did not resolve 6 of 7 issues reported in audit report no. 08-03.

- Chapter did not develop budgets or obtain community approval prior to expending Chapter funds totaling \$52,490. Additionally, the Chapter presented sanction funds withheld totaling \$59,813 as available for expending in FY16.
- Chapter did not have required support documentation on housing projects and public employment projects.
- Chapter did not record its fixed asset values to the inventory. Also, the Chapter did not develop a perpetual inventory to account for the sale of hay.
- Chapter did not generate reliable financial statements.
- Chapter did not fully implement the Five Management System.
- Chapter officials did not monitor chapter operations.

CONCLUSION

The Shiprock Chapter has not fully implemented the corrective actions outlined in the corrective action plan. Therefore, the sanctions imposed upon the Shiprock Chapter and officials shall remain in place until such time the corrective action plan is fully implemented in accordance with 12 N.N.C., Section 9 (b) and 9 (c). See attached Exhibit A for the review results.

Sincerely,


Elizabeth Begay, CIA, CFE
Auditor General

xc: Tommie Yazzie, Vice-President
Dr. J. Kaibah Begay, Secretary/Treasurer
Tom Chee, Council Delegate
SHIPROCK CHAPTER
Robert Begay, Department Manager II
ADMINISTRATIVE SERVICE CENTER/DCD
Chrono

REVIEW RESULTS

PRIOR FINDINGS, CORRECTIVE ACTIONS AND CURRENT STATUS

Prior Finding I: Chapter Internal Controls are Deficient.

Chapter Corrective Actions	Status of Corrective Action
Issue 1: Controls over expenditures are weak.	
1. The budget will be developed in accordance to chapter policies and procedures. The Chapter will authorize expenditures of chapter funds in accordance with adopted budget.	<i>Not Implemented.</i> The Chapter did not develop budgets or obtain community approval prior to expending internally generated funds totaling \$37,427, San Juan County Grant funds totaling \$7,200, and donations totaling \$7,863. The subsequent expenditure of these funds was unauthorized. Without a budget, the administrative staff arbitrarily set-up budget ledgers. Furthermore, the Chapter also included sanctioned funds withheld by the Navajo Nation totaling \$59,813 in the FY16 budget presented for approval to the community as if the withheld funds were available to the Chapter for expenditure.
2. The Chapter will set up the accounting ledgers based on the approved budgets.	
Audit Issue Resolved? No	
Issue 2: Chapter does not comply with funding guidelines for restricted funds.	
3. The Chapter will monitor housing projects to ensure funds are used as intended.	<i>Not implemented.</i> 8 of 8 (or 100%) housing assistance files were reviewed for compliance with the housing policies and procedures. All eight housing assistance files did not have a statement of work to describe the project, performance report to describe the accomplishments and completion of the project, and expenditure report to identify the cost of the project. The Chapter did not monitor the housing projects to ensure funds were used as it was intended to be used.
4. The Accounts Maintenance Specialist shall ensure an efficient and effective retention of Public Employment Project records.	<i>Not implemented.</i> 12 of 12 (or 100%) public employment projects were reviewed for compliance with the Public Employment Project policies and procedures. All 12 projects did not have project completion reports to show the projects were monitored.
Audit Issue Resolved? No	
Issue 3: Chapter inventory controls are inadequate.	
5. The Chapter Community Services Coordinator will identify all property/equipment and maintain a detailed and accurate physical inventory list.	Implemented

6. The Accounts Maintenance Specialist will record fixed assets to the appropriate ledgers.	<i>Not Implemented.</i> The Chapter has no fixed asset value to record to the appropriate ledgers because the Chapter has not obtained appraisals of their fixed assets.
7. The Chapter will provide the current list to the Navajo Nation Risk Management Program annually.	Implemented.
8. All resale goods shall be accounted for and shall be safeguarded. The Chapter will maintain a perpetual inventory system in accordance to policies and procedures. The inventory sales receipts will be reconciled weekly to the inventory records.	<i>Not implemented.</i> The Chapter did not maintain a perpetual inventory to account for the sale of hay.
Audit Issue Resolved? No	

Prior Finding II: Chapter Accounting Records are Unreliable.

Chapter Corrective Actions	Status of Corrective Action
Issue 4: Accounting records are not properly established.	
1. The Chapter will prepare bank reconciliations each month.	Implemented.
Audit Issue Resolved? Yes	

Prior Finding III: Chapter Officials and ASC need to exercise better monitoring of Chapter operations.

Chapter Corrective Actions	Status of Corrective Action
Issue 5: Lack of FMS implementation contributed to control deficiencies and non-compliance.	
1. The Chapter will fully implement the Five Management System policies and procedures.	<i>Not implemented.</i> The Chapter officials and staff did not fully implement the Five Management System. Internal controls remain deficient. The Chapter paid four (4) consultants a total of \$17,923 without documentation to support the services provided.
Audit Issue Resolved? No	
Issue 6: Chapter financial reports are inaccurate.	
2. The Chapter will generate the three basic financial statements each month.	<i>Not Implemented.</i> Although the accounting system can generate the basic financial statements, the financial statements were unreliable for the following reasons: Balance Sheet <ul style="list-style-type: none"> • Unreported fixed assets. Statement of Revenues and Expenditures <ul style="list-style-type: none"> • Inaccurate posting of the FY16 Navajo Nation allocation and Carry Over fund from FY15. • Deposits of approximately \$8,891.07 were not posted to the cash receipt journal.
Audit Issue Resolved? No	

Issue 7: Chapter officials and Administrative Services Center need to exercise better monitoring of Chapter operations.

3. The Chapter officials will abide by its monitoring responsibilities in accordance to the Local Governance Act.	<i>Not Implemented.</i> The Chapter officials did not effectively monitor and provide oversight over chapter operations in accordance with the Local Governance Act.
4. The Chapter will obtain training from Administrative Services Center and any other external source to improve chapter effectiveness and efficiency.	

Audit Issue Resolved? No