

OFFICE OF THE AUDITOR GENERAL

The Navajo Nation

**A Special Review
of the
Tsaile/Wheatfields Chapter's
Cash Disbursements Activities**

**Report No. 17-11
December 2016**

**Performed by:
Robert Jumbo, Senior Auditor**



December 23, 2016

Zane James, President
 TSAILE/WHEATFIELDS CHAPTER
P.O. Box C18
Tsaile, AZ 86556

Dear Mr. James,

The Office of the Auditor General herewith transmits audit report no. 17-11, a Special Review of the Tsaile/Wheatfields Chapter's Cash Disbursements Activities. The special review of cash disbursements was requested by the Chapter community members because of concerns over the management of the Chapter's finances. Listed below were issues identified in the special review that is deemed material weakness.

The Chapter Officials and Community Services Coordinator did not properly review voucher packets to verify all required documentation was accounted for prior to co-signing checks. Subsequently, the Chapter expended \$67,812 in unjustified procurements of goods and services.

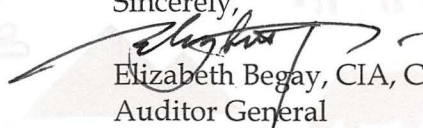
The Chapter Officials and Community Services Coordinator did not evaluate and rank housing discretionary applications, resulting in \$26,904 in questionable assistance.

The former Accounts Maintenance Specialist collected sales taxes on internally generated revenues; however, the collected sales taxes were not reported and remitted to the Office of Navajo Tax Commission in a timely manner.

The Chapter administration and Secretary/Treasurer did not provide complete financial reports to the Chapter membership.

More details on all of these issues can be found in the body of this report.

Sincerely,



Elizabeth Begay, CIA, CFE
Auditor General

xc: David Kedelty, Chapter Vice-President
Margie R.S. Begay, Chapter Secretary/Treasurer
Paula S. Begay, Community Services Coordinator
Nelson S. Begay, Council Delegate
 TSAILE/WHEATFIELDS CHAPTER
Carl Smith, Executive Director
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TABLE OF CONTENTS

	<u>Pages</u>
INTRODUCTION AND BACKGROUND.....	1
OBJECTIVE, SCOPE, METHODOLOGY.....	2
FINDING I: \$67,812 of expenditures were paid without supporting documentation	3
FINDING II: Housing assistance applications were not evaluated and ranked and the required performance reports were not completed ..	4
FINDING III: Sales taxes collected were not reported and remitted in a timely manner.	6
FINDING IV: Complete information on the Chapter finances were not provided to the Chapter Membership	7
CONCLUSION.....	8
CLIENT RESPONSE.....	9

INTRODUCTION AND BACKGROUND

Pursuant to 12 N.N.C. Section 2(A), the Office of the Auditor General has conducted a special review of the Tsai/Wheatfields Chapter's Cash Disbursement Activities. The special review of cash disbursements was requested by the Chapter community members because of concerns over the management of the Chapter's finances.

The majority of the Chapter's resources are provided through appropriations from the Navajo Nation central government. These appropriations are intended to fund direct and indirect services at the local chapter government. Funds for the direct services are considered restricted funds with specific intended purposes.

The Chapter also generates internal revenues from the sales of hay and by providing miscellaneous services. Any unexpended funds at the end of the fiscal year are carried over to the next fiscal year. Table 1 shows the Chapter's total resources available for the 18-month audit period ending March 31, 2016.

Table 1
Budget and actual expenditures for direct & indirect services
18-month audit period October 1, 2014 through March 31, 2016

Service Type	Category	Budget	Actual	Available	Percentage of Budget Available
Direct Service	Financial Assistance - Student	\$ 63,055	\$ 77,200	\$ (14,145)	-22%
	Emergency	\$ 201,606	\$ 85,050	\$ 116,556	58%
	Financial Assistance - Housing	\$ 85,098	\$ 32,038	\$ 53,060	62%
	Temporary Employment	\$ 171,238	\$ 135,771	\$ 35,467	21%
	Financial Assistance - Community	\$ 81,446	\$ 34,425	\$ 47,021	58%
	Capital Outlay	\$ 385,886	\$ 97,974	\$ 287,912	75%
	Total - Direct Services:	\$ 988,329	\$ 462,458	\$ 525,871	53%
	Percentage of Grand Total - Direct Services:	78%	67%	90%	
Indirect Service	Stipends	\$ 120,637	\$ 75,098	\$ 45,539	38%
	Travel	\$ 59,828	\$ 57,035	\$ 2,793	5%
	Operating	\$ 106,468	\$ 95,956	\$ 10,512	10%
	Total - Indirect Services:	\$ 286,933	\$ 228,089	\$ 58,844	21%
	Percentage of Grand Total - Indirect Services:	22%	33%	10%	
	GRAND TOTAL:	\$ 1,275,262	\$ 690,547	\$ 584,715	46%

Source: Office of the Auditor General compilation of revenues and expenditures.

Of the \$1,275,262 total resources, \$690,547 was actually spent during the 18 month period ending March 31, 2016. \$462,458 (67%) was expended for direct services and \$228,089 (33%) for indirect services.

Scope, Objectives, and Methodology

The scope for this special review was the 18-month period of October 1, 2014 through March 31, 2016. The objectives of this special review include:

1. Determine whether procured goods and services had supporting documents.
2. Determine whether housing recipients were eligible to receive assistance.
3. Determine whether the Chapter reported and paid their sales tax liabilities to the Office of Navajo Tax Commission.
4. Determine whether the Chapter provided complete financial reporting to the Chapter membership.
5. Determine whether the travel expenditures have supporting documents.
6. Determine whether the Chapter expended emergency funds for emergency-related events.
7. Determine whether the Chapter properly managed their capital outlay projects.
8. Determine whether the Chapter maintains complete records of temporary workers hired.
9. Determine whether the fund approval form was completed before processing Chapter checks.
10. Determine whether all checks were posted in the accounting system.

To accomplish our audit objectives, we performed the following procedures: interviewed Chapter staff and officials, observed Chapter operations and examined available records, and tested samples of expenditures for internal controls and compliance requirements by using a non-statistical, judgmental method.

Material Weakness

A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Chapter's financial statements will not be prevented, or detected and corrected in a timely basis.

Throughout the course of the special review, there were areas in which controls appeared to be functioning as intended. Based on the selected testing performed on Chapter disbursements to verify objectives 5 through 10, the number of exceptions identified do not rise to the level of a material weakness. The documentation to support travel expenditures, emergency fund expenditures, temporary workers hired, and fund approval forms were on file at the Chapter. All checks disbursed were posted in accounting system.

Based on the selected testing performed on objectives 1 through 4, we conclude that the number of exceptions identified rise to the level of a material weakness. Therefore, Findings I through IV is presented beginning on page 3 of this report.

Government Auditing Standards

We conducted this special review in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

REVIEW RESULTS

Finding I: \$67,812 of expenditures were paid without supporting documentation.

Criteria: Section V.2.a,b,f, General Duties and Responsibilities, of the Procurement Policies and Procedures Manual states that the Administrative Assistant will identify a need to procure services, supplies or equipment for Chapter purposes or projects and initiate the purchase requisition based on availability of funds. The Administrative Assistant is also required to obtain three price quotations to ensure a fair price is being paid and verify funds availability by reviewing the appropriate ledgers. The Administrative Assistant must also obtain and receive the merchandise along with the invoice(s) and prepare receiving report(s) for goods and services received.

Condition: 18 out of 18 total operating expenditures were reviewed for justification and the following supporting documentation was missing.

Exception Type	Number of Exceptions
Missing Three Quotations	9 of 18 (50%)
Missing Receiving Report	1 of 18 (6%)
Missing Invoice/Receipt	1 of 18 (6%)
Missing Approval	1 of 18 (6%)
Missing Purchase Requisition	1 of 18 (6%)

Effect: The Chapter cannot justify \$67,812 out of \$116,284 in expenditures. It is possible, but has not been confirmed, that the Chapter paid more for goods and services than necessary and may not have received the goods and services they paid for.

Cause: Chapter Officials and the Community Services Coordinator did not review the voucher packets to verify all required documentation was attached prior to co-signing checks.

Recommendation(s): Chapter Officials and the Community Services Coordinator should review voucher packets to ensure that all required supporting documentation is attached before signing checks.

Finding II: Housing assistance applications were not evaluated and ranked and the required performance reports were not completed.

Issue: Housing assistance supporting documents were not obtained for evaluation and ranking, resulting in \$26,904 of questionable assistance.

Criteria: Section V.A, Application and Eligibility Requirements, of the Chapter’s Housing Discretionary Fund Policies and Procedures states to be eligible to receive housing assistance the applicant must: 1) be a registered voter of the Chapter, 2) be able to provide a patient referral notice, and 3) be able to prove the home is in need of renovation, repair, or improvement. To ensure that equal protection and due process are followed, the Community Services Coordinator shall evaluate, rank, and formally recommend the type of assistance awarded.

Condition: 14 of 18 total applications for housing assistance did not contain necessary supporting documentation and none of the 18 were evaluated and ranked.

Exception Type	Number of Exceptions
Insufficient Supporting Documentation	14 of 18 (78%)
No Evaluation and Ranking	5 of 18 (28%)

Effect: The Chapter cannot provide reasonable assurance that \$26,904 out of \$33,939 in assistance was disbursed only to eligible recipients.

Cause: The Community Services Coordinator did not collect and rank required documentation before housing assistance was disbursed.

Recommendation(s):

1. The Chapter Administration should gather and review all documentation for eligibility before disbursing assistance.
2. The Community Services Coordinator should evaluate and rank applicants to ensure equality in awarding housing assistance.

Issue: The Community Services Coordinator did not prepare performance reports after recipients were awarded housing assistance.

Criteria: Section IV.G, Expenditure Requirements and Reporting Policies, of the Chapter's Housing Discretionary Fund Policies and Procedures states that upon completion of the work, the Community Services Coordinator shall prepare a performance report briefly describing the accomplishments as they relate to the statement of work.

Condition: The Community Services Coordinator did not complete 18 of 18 performance reports for housing assistance awarded as required by the Chapter's Housing Discretionary Fund Policies and Procedures.

Effect: The Chapter cannot provide reasonable assurance that the \$33,939 in housing discretionary funds awarded were used as intended by the recipients.

Cause: The Community Services Coordinator claims to have completed the performance reports for housing assistance, but no supporting documentation was provided to substantiate this claim.

Recommendation(s): The Community Services Coordinator should ensure performance reports are on file at the Chapter.

Finding III: Sales taxes collected were not reported and remitted in a timely manner.

Criteria: Navajo Nation Sales Tax regulations require Chapters to collect 5% sales tax from internally generated revenues. The Chapter must register with the Office of Navajo Tax Commission and report and remit the sales tax collected to the Office of Navajo Tax Commission.

Condition: The Chapter collected the 5% sales tax from community members from internally generated revenues of \$71,322 between October 2010 and March 2016, however, the Chapter did not register, report, and remit the sales tax collected with the Office of Navajo Tax Commission until 2016.

Effect: The Chapter could face interest and penalties for the untimely reporting of sales tax from internally generated revenues of \$71,322.

Cause: The Community Services Coordinator did not verify that sales tax collected was remitted to the Office of Navajo Tax Commission.

- Recommendation(s):**
1. The Chapter Administration should register, report, and remit their sales tax obligations with the Office of Navajo Tax Commission in a timely manner.
 2. The Community Services Coordinator should verify sales taxes collected are reported and remitted to the Office of Navajo Tax Commission.

Finding IV: Complete information on the Chapter finances were not provided to the Chapter membership.

Criteria: In accordance with Title 26, the Local Governance Act, Section 1002(i), the Chapter administration is responsible for preparing financial reports on Chapter revenues and expenditures and for requiring the Secretary/Treasurer to present the financial reports to the Chapter membership at a duly called Chapter meeting.

Condition: The Balance Sheet and Income Statement were not presented to the Chapter membership during the 18 months of our audit scope.

Effect: In the absence of complete financial reports, the Chapter membership cannot make informed financial decisions.

Cause: The abolished Local Governance Support Center informed the Chapter that only the Summary Budget-to-Actual was required as a financial report.

Recommendation(s): 1. Secretary/Treasurer should provide complete monthly financial reports: budget-to-actual, balance sheet, and income statement and document the reporting and attach a copy of financial reports to the meeting minutes.

CONCLUSION

50% of procured goods/services did not have three quotations and 6% did not have invoices and receiving reports. The Chapter may have paid more for goods/services and it is possible that the Chapter did not receive all goods/services procured.

Supporting documentation for housing assistance was not obtained resulting in \$26,904 in questionable expenditures. 78% of the housing assistance had insufficient supporting documentation and 28% were not ranked. Therefore, the Chapter did not guarantee that housing assistance was awarded only to eligible recipients. In addition, the Chapter did not prepare a required performance report for the housing projects that would have confirmed that building materials were used as intended.

The Chapter was not registered and did not remit sales tax liabilities to the Office of Navajo Tax Commission in a timely manner and may be subject to interest and penalties imposed by the Office of Navajo Tax Commission.

The Chapter did not disclose the financial condition and results of operation to community members at Chapter meetings as required by Navajo Nation reporting requirements. Without these reports, the Chapter membership cannot make informed decisions.

CLIENT RESPONSE



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Tsehile

Todziah

Tsezhini

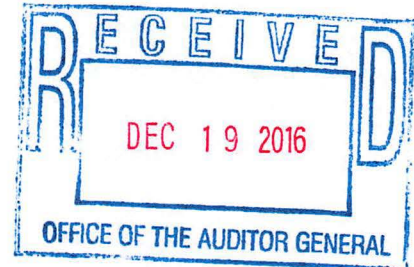
Lane P. James, President
Thomas Litson, Grazing Committee

David Kedefty, Vice President

Margie R.S. Begay, Secretary/Treasurer
Nelson Begaye, Council Delegates

December 19, 2016

Elizabeth Begay, CIA, CFE
Auditor General
Office of the Auditor General
P.O. Box 708
Window Rock, Arizona 86515



Dear Ms. Begay,

The Tsaile/Wheatfields Chapter is in receipt of your November 29, 2016 final draft of the Tsaile/Wheatfields Chapter's Cash Receipts Activities, and the Special Review of the Tsaile/Wheatfields Chapter's Cash Disbursement Activities. Pursuant to 12 NNC § 7A, we hereby provide the follow response to the final draft.

The Tsaile/Wheatfields Chapter provides the following response to the Special Review of the Cash Disbursement Activities.

Introduction and Background: Within this section, it indicates that the special review of cash disbursements was requested by the chapter community members because of concerns over the management of the chapter's finances. We feel it is vital to include that the Chapter President on several occasions requested a "Comprehensive Audit" to include all activities within the chapter, therefore it should be mentioned that the chapter officials were in full support of a special review of the cash disbursements. These requests were made in email form to Mr. Robert Jumbo on May 25, 2016 and again on June 22, 2016. Copies of the email are attached as "Exhibit C" for your review and reconsideration. Those copies were a part of the initial recommendations in our letter dated November 14, 2016.

Finding I: This response is specifically to the \$47,650.25 for Empire Southwest from February 17, 2015 to March 11, 2016 for equipment rental. Empire Southwest has had a contact with Navajo Division of Transportation for the purchase of road grader and other road related equipment since December 2008. Additionally, since 2013 Navajo DOT has contracted with Empire Southwest for the maintenance of road grader equipment. Navajo Nation chapter were advised that we could utilize this procured agreement between Navajo DOT and Empire Southwest in reference to any road grader purchase or rental. Empire Southwest honors the same discounted rental rate given to Navajo DOT and applies that discounted rental rate to Navajo Nation Chapters. Attached is a email from Navajo DOT Division Director Mr. Garrett Silversmith that acknowledges that a contract does exist within the time of the audit.

Additionally, an email from Mr. Greg Smith of Empire Southwest indicates the discounted agreement between Empire Southwest and the Navajo Nation Chapters. The

Tsaile/Wheatfields chapter has also attached a memorandum justifying the sole source of Empire Southwest. We hope you reconsider this and revise your findings.

As for the \$16,625.00 for ETD Inc, this procured services was led by Navajo Division of Transportation as they are the lead agent for road related projects. The Tsaile/Wheatfields Chapter was advised that we could not enter into a contract therefore utilized the technical assistance of Priscilla Lee and Marco Sells of Navajo DOT to procure the services of ETD Inc. We are still awaiting a project completion form for the work that was done. ETD Inc. has submitted the Finding of No Significant Impact to the chapter and Navajo DOT for final approval. The Tsaile/Wheatfields Chapter has forwarded documents from Navajo Division of Transportation that documents all the procurement policies of the Navajo Nation were followed. Additionally, we have submitted an email from Chinle Agency Planner, Mr. Marco Sells, that indicates that the project has been completed.

In conclusion the Tsaile/Wheatfields Chapter officials and administration is appreciative of the Auditor Generals response to our request for an audit of our chapter. We are very confident that the Auditor Generals office will accept our response to the audit and review and reconsider the "Findings" in the initial audit. If you should have additional questions, please contact us at (928) 724.2220.

Sincerely,



**Zane James, President
Tsaile/Wheatfields Chapter**

Attachement

**XC: David Kedelty, Vice President
Margie R.S. Begay, Secretary/Treasurer
Paula S. Begay, Community Service Coordinator
Nelson S. Begay, Council Delegate
Robert Begay, Department Manager II
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