

OFFICE OF THE AUDITOR GENERAL

The Navajo Nation

**A Follow-up Review
of the
Division of Economic Development
P-card Purchases
Corrective Action Plan Implementation**

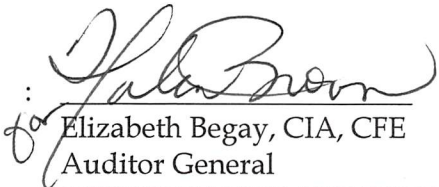
**Report No. 18-05
December 2017**

**Performed by:
Alfreda Lee, Senior Auditor**



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

TO : Crystal Deschinny, Executive Director
DIVISION OF ECONOMIC DEVELOPMENT

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

DATE : December 11, 2017

SUBJECT : A Follow-up Review of the Division of Economic Development P-card Purchases
Corrective Action Implementation

The Office of the Auditor General herewith transmits Audit Report number 18-05, A Follow-up Review of the Division of Economic Development P-card Purchases Corrective Action Plan Implementation. The follow-up was conducted to determine the status of the corrective action plan, which was developed by the Division of Economic Development in response to the 2011 Special Review of P-card Purchases. The 2011 audit report and the corrective action plan were approved by the Budget and Finance Committee on August 7, 2012 per resolution BFAU-40-12.

Follow-Up Results

The corrective action plan listed 12 corrective measures to address the audit findings with the Division of Economic Development p-card purchases. Of the 12 corrective measures, the Division of Economic Development implemented 1 (8%) corrective measure, leaving 11 (92%) not implemented. The follow-up results are summarized in the body of the report.

Conclusion

The Division of Economic Development did not implement the corrective action plan. Consequently, the findings with the p-card purchases reported in the 2011 report remain unresolved. Accordingly, we recommend sanctions be imposed for failure to implement the corrective action plan. Pursuant to 12 N.N.C., the recommended sanctions are: Section 9 (b), withhold 10% of the Division of Economic Development's operating budget and Section 9 (c) withhold 20% of the salary of the Executive Director who failed to implement the corrective action plan. Once the Division of Economic Development fully implements their corrective action plan, all withheld funds under Section 9(b) and (c) will be released to the division.

xc: Clara Pratte, Chief of Staff
OFFICE OF THE PRESIDENT/VICE-PRESIDENT
Chrono

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INTRODUCTION AND BACKGROUND

The Office of the Auditor General performed a follow-up review to determine the current status of the Division of Economic Development corrective action plan.

In 2011, the Office of the Auditor General conducted a special review of p-card purchases made by the Navajo Nation Division of Economic Development staff and issued audit report number 12-11. The special review resulted in two significant findings with related recommendations. The audit report and the corrective action plan developed by the Division of Economic Development was approved by the Budget and Finance Committee on August 7, 2012 per resolution number BFAU-40-12.

Program Purpose and Organization

The Division of Economic Development is established within the Executive Branch of the Navajo Nation. The purpose of the division is to create an environment that is conducive to promote and develop business in commercial, tourism, industrial, and other sectors and to enhance the creation of jobs and business opportunities.

To help carry out this purpose, the Division of Economic Development is comprised of seven departments, each with its own purpose, objectives and authorities, and employs 59 employees. The seven departments are: 1) Administration, 2) Project Development, 3) Business Regulatory Department, 4) Support Services, 5) Small Business Development Department, 6) Tourism Department, and 7) Real Estate Department. The Resource and Development Committee of the Navajo Nation Council provides oversight to the Division of Economic Development and its departments.

P-cardholders, policies and expenses

Currently, the Division of Economic Development has 11 p-cardholders. Of the 11, four cardholders were authorized to use their respective p-cards for operating and travel purchases during the audit scope. However, most operating expenses were made by only two of the four operating cardholders because they were assigned to make operating purchases on behalf of all the departments. The remaining seven cardholders only have travel purchasing privileges.

The monthly spending limits for the operating and travel cards are \$5,000 and \$2,500, respectively. The p-cardholders are required to adhere to the Navajo Nation p-card, travel and procurement policies when using their cards.

For the six-month period October 1, 2016 through March 31, 2017, total expenditures incurred by the Division of Economic Development were \$336,259. Of this amount, \$43,600 (13%) was incurred using p-cards. Table 1 summarizes the cardholders and expenses by each department:

[See Table 1 on next page]

Table 1
Summary of p-cardholders and p-card expenses
Between October 2016 and March 2017

Departments	# of cardholders	Travel Expenses	Operating Expenses	Total Expenses
Administration	3	\$ 4,403	\$ 1,407	\$ 5,810
Project Development	1	12	1,110	1,122
Business Regulatory	3	4,310	239	4,549
Support Services	1	4,530	6,295	10,825
Small Business Development	3	2,252	9,344	11,596
Tourism	--	1,380	7,698	9,078
Real Estate	--	--	630	630
TOTAL:	11	\$ 16,887	\$ 26,723	\$ 43,610

Source: Office of the Controller Financial Management Information System

Objective, Scope and Methodology

In accordance with 12 N.N.C., Section 7, our objective was to determine whether the Division of Economic Development implemented the corrective action plan from audit report number 12-11. However, if other significant issues were noted during the review, such issues were further evaluated for materiality and risk to determine whether the issues warranted presentation in this report.

The scope for this follow-up review was for the six-month period beginning October 1, 2016 through March 31, 2017.

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

- Reviewed Navajo Nation policies and procedures regarding p-card usage, procurement, and travel.
- Reviewed applicable reports generated by the Financial Management Information System.
- Obtained p-card data from Wells Fargo Commercial Card Expense Reporting system and completed the following:
 - a) Identified all p-cardholders for the Division of Economic Development
 - b) Extracted all p-card transactions for the cardholders
 - c) Identified anomalies based on defined analytical tests
 - d) Summarized the data analysis results
- Selected judgmentally a sample of 45 p-card transactions to test for cardholder compliance with Navajo Nation procurement rules and regulations. We focused on the two operating p-cardholders with the highest amounts of operating purchases.
- Selected judgmentally a sample of 29 travel authorizations that contained 90 p-card transactions to test for cardholder compliance with travel policies and procedures.

- Reviewed applicable records provided by the Office of the Controller/Purchase Card Section and the Division of Economic Development.
- Interviewed staff from the Division of Economic Development and the Office of the Controller.

The Office of the Auditor General expresses their appreciation to the Division of Economic Development staff and all other entities who contributed to this audit for their cooperation and assistance.

REVIEW RESULTS
PRIOR FINDINGS, CORRECTIVE ACTIONS AND CURRENT STATUS
Six-month Review Period: October 01, 2016 to March 31, 2017

Prior Finding: Between June 2008 and July 2010, the former Real Estate Development accountant incurred p-card operating and travel expenses totaling approximately \$156,500. There was no documentation found on file to support her p-card charges. Once receipts were obtained directly from the merchants, it was revealed that the former accountant purchased personal items that were unrelated to the purpose and objective of the Real Estate Department such as infant/baby items, circular saw, brand name handbags, etc. Therefore, 100% of the \$156,500 p-card charges made by the former Real Estate Department accountant were deemed questionable.

Corrective Actions	Current Status of Corrective Actions
<p>1. Cooperate with the Office of the Prosecutor, Office of the Controller/Purchasing Card Section, and any entities to investigate for possible criminal charges and \$156,500 restitution.</p>	<p><u>Not Implemented.</u> In February 2011, the Real Estate Department referred the former accountant to the Office of the Prosecutor-White Collar Crime Unit and the Ethics and Rules Office for further investigation. According to the White Collar Crime Unit, there has been no action on this referral. As such, there was no investigation of the former accountant.</p> <p>The Office of the Auditor General hired a private investigator to investigate the former accountant. The investigation report was referred to the Ethics and Rules Office but as of this report date, no complaint has been filed against the former accountant to seek restitution for the Navajo Nation.</p> <p>In the absence of any investigation or complaint, the Real Estate Department cannot implement this corrective measure. The department manager indicated to have followed up with the White Collar Crime Unit and Ethics and Rules Office several times on the status of her referral but no documentation was provided to substantiate this claim.</p>

Prior Finding: The Division of Economic Development employees did not comply with procurement rules and regulations or travel policies and procedures. Furthermore, cardholders, reconcilers and approvers did not effectively perform their duties and did not submit the required supporting documents of their p-card activities to the Navajo Nation Purchase Card Section in a timely fashion. Consequently, employees were not held accountable for their p-card purchases.

Corrective Actions	Current Status of Corrective Actions
<p>1. Cardholders, reconcilers, and approvers shall not conceal questionable p-card transaction(s); every transaction shall have clear descriptions to prevent concealing personal purchases.</p>	<p><u>Not Implemented.</u> Of the 45 p-card operating transactions examined, 10 (22%) had purchase descriptions posted in the p-card system that were inconsistent with the descriptions found in the corresponding vendor invoices.</p>
<p>2. Proper classification shall be made on each transaction during the review process; misclassified transactions shall be properly reclassified.</p>	<p><u>Not Implemented.</u> Of the 45 p-card operating transactions examined, seven (16%) were misclassified based on the following:</p> <ul style="list-style-type: none"> a) The object codes noted on the general ledger reports were inconsistent with the codes noted on the p-card purchase requisitions. b) The object codes used for p-card transactions did not coincide with the purchase description. For example, an expense for repairing doors was misclassified as an investment consultant expense. <p>The misclassification of p-card transactions was not detected since the card reconcilers and approvers did not properly review the card expense reports generated by the cardholders. Our examination found that 15 of 22 (68%) expense reports did not have the signature of the cardholder, reconciler and/or approver to show p-card transactions were properly reviewed.</p>
<p>3. All supporting documentation shall be attached to each transaction before approval; transactions with no supporting documentation shall become the cardholder's liability to reimburse the Navajo Nation.</p>	<p><u>Not Implemented.</u> Our examination of samples of operating and travel p-card transactions revealed missing supporting documentation as follows:</p>

	<p><i>Operating:</i></p> <ul style="list-style-type: none"> • 28 of 32 (88%) transactions tested totaling \$13,987 did not have three required quotes. • 6 of 45 (13%) transactions tested totaling \$2,174 did not have itemized receipts. <p><i>Travel:</i></p> <ul style="list-style-type: none"> • 13 of 90 (14%) transactions tested totaling \$1,447 were not supported with proper documentation (receipts, trip report, meeting agenda, etc.). • 3 of 20 (15%) lodging expenses tested totaling \$339 did not have lodging receipts.
<p>4. Purchases classified as equipment, furniture, non-office supply or large quantity will use the Navajo Nation Purchasing Services Department procurement process; p-card will not be used to procure purchases that require tagging by Navajo Nation Property Management.</p>	<p>Implemented.</p>
<p>5. P-card holders shall be held accountable for all operating and travel related transactions; any unauthorized transaction will be subject to further review, suspension of p-card, and/or disciplinary action according to the Department of Personnel Management Policies and Procedures.</p>	<p><u>Not Implemented.</u> Our examination of samples of p-card operating and travel transactions revealed that management did not hold the p-cardholders accountable for their p-card usage and there is no evidence that appropriate action was taken to address the following discrepancies:</p> <p><i>Operating:</i></p> <ul style="list-style-type: none"> • 37 of 45 (82%) operating purchases tested totaling \$17,844 did not have an approved purchase requisition prior to purchase. <p><i>Travel:</i></p> <ul style="list-style-type: none"> • 6 of 29 (21%) travel expenses tested totaling \$959 were not approved prior to travel. • 10 of 36 (28%) meal charges tested totaling \$275 were for more than one traveler per the itemized receipt.

	<ul style="list-style-type: none"> • 8 of 14 (57%) lodging expenses tested totaling \$789 went over the per diem limit without justification. • 8 of 22 (36%) Commercial Card Expense Reporting packets tested were not submitted in a timely manner to the P-card Section.
6. Assign technical personnel to work with individual p-card holders to ensure original invoices, supporting documentation and authorizations are in compliance.	<u>Not Implemented.</u> The Division of Economic Development acknowledged this corrective measure was not implemented.
7. Limit departments and programs to one operations p-card.	<p><u>Not Implemented.</u> The Division of Economic Development has seven departments. Rather than establishing an operating p-card for each department, four cardholders were given operating purchasing privileges. However, of these four, two were given primary responsibility for making p-card purchases on behalf of all seven departments. Therefore, there were essentially two operating cardholders.</p> <p>Although two operating p-cards are much more manageable, there are still issues with this current arrangement:</p> <ul style="list-style-type: none"> • Neither cardholder is told which departments they are responsible for because there is no method to collaborate purchases between cardholders. • One cardholder can deny a purchase request while the other cardholder approves the same purchase. • One of the cardholders that did not have an assigned reconciler was reconciling his own p-card activities, which is contrary to p-card policies.
8. Reconcilers and technical personnel should report any non-compliance directly to the division director.	<u>Not Implemented.</u> The Division of Economic Development acknowledged this corrective measure was not implemented.

<p>9. Department and program managers, on a quarterly basis, shall review the division's p-card activities for financial status and accountability.</p>	<p><u>Not Implemented.</u> The Division of Economic Development acknowledged this corrective measure was not implemented.</p>
<p>10. On a quarterly basis, perform random "desk audits" for Division of Economic Development p-card holders, reconcilers, and approvers to ensure compliance with Navajo Nation purchase card policies, procurement rules and regulations, and employee travel policies and procedures handbook.</p>	<p><u>Not Implemented.</u> The Division of Economic Development acknowledged this corrective measure was not implemented.</p>
<p>11. Conduct semi-annual training in policy and procedures, rules and regulations, and internal control policy relating to p-card, procurement, and travel.</p>	<p><u>Not Implemented.</u> The Division of Economic Development acknowledged this corrective measure was not implemented.</p>