

## **OFFICE OF THE AUDITOR GENERAL**

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### **The Navajo Nation**

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

**Report No. 18-19  
March 2018**

**Performed by:  
Harshwal & Company LLP**





March 30, 2018

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. 18-19, a Second Follow-Up Review of the Leupp Chapter Corrective Action Plan Implementation. The second follow-up was conducted in conjunction with Harshwal & Company LLP, Certified Public Accountants.

BACKGROUND

In 2014, the Office of the Auditor General completed a special review of Leupp Chapter. The first follow-up review report released in March 2017 concluded that the Leupp Chapter failed to implement their corrective action plan. Consequently, the Budget and Finance Committee per resolution BFO-28-14 approved to sanction the Leupp Chapter but delayed the enforcement of the sanction pending the results of the second follow-up review.

OBJECTIVE AND SCOPE

The objective of this second follow-up review was to determine whether the Leupp Chapter has fully implemented their corrective action plan based on a 6-month review period of April 1, 2017 to September 30, 2017.

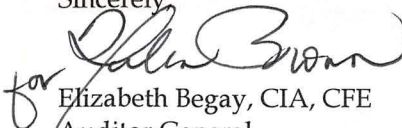
SUMMARY

Of the 20 outstanding corrective measures that the Chapter did not implement from the first follow-up review, the Chapter implemented only 6 (30%) corrective measures. The Chapter did not implement 13 (65%) corrective measures and one (5%) corrective measure could not be determined due to no activity. See enclosed Exhibit A for the detailed explanation of the follow-up results.

CONCLUSION

This second follow-up review determined that Leupp Chapter did not fully implement their corrective action plan. Consequently, the Chapter is sanctioned pursuant to 12 N.N.C. Section 9(b) and 9(c). Once the Leupp Chapter fully implements their corrective action plan, all withheld funds will be released to the Chapter.

In conclusion, we wish to thank the Leupp Chapter for assisting in the follow-up review.

Sincerely  
  
for 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

**The Office of the Auditor General - Navajo Nation  
Second Follow-Up Review  
of the  
Leupp Chapter  
Corrective Action Plan Implementation**

**Executive Summary**

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

The Navajo Nation Office of the Auditor General conducted 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 status of the corrective action plan in response to a Special Review of the Leupp Chapter for the 21-month period ending June 30, 2013.

Harshwal and Company, LLP performed a second follow-up review of the Leupp Chapter implementation of its corrective action plan to determine whether the outstanding corrective measures have been implemented to address the eight audit findings that are currently unresolved. The scope of our review was for a six month period, from April 1, 2017 to September 30, 2017. Our procedures of performing the review consisted of interviews with chapter officials, inquires and discussions with chapter staff, performing a review of a selected sample size of expenditures, reviewing the chapter board minutes, reviewing the chapter's fiscal policies and procedures, and reviewing applicable documentation to verify if corrected measures were implemented per the chapter's corrective action plan.

**SUMMARY OF THE RESULTS OF THE REVIEW**

Based on the results of the work that we performed, we identified the following areas where the **chapter made progress in implementing its corrective action plan:**

- The Chapter developed a budget for internally generated revenue, which was presented to the chapter membership for adoption.
- At present, the chapter officials and administration have a much better working relationship due to an open and transparent line of communication.
- The chapter officials are making sure information relevant to the chapter is shared and disseminated to community members at chapter meetings.

Based on the results of the work that we performed, we identified the following areas where the **chapter did not make progress in implementing its corrective action plan**:

- The Chapter did not have a complete fixed assets listing; therefore, fixed assets were not reported in the financial statements, and the Chapter Manager and Chapter officials were unable to complete a reconciliation of the accounting system to the list.
- The Chapter's most recent count of inventory is incomplete, which resulted in the assets listing missing important information such as purchase date, tag number, etc.
- A physical inventory count of resale items was not performed and reconciled to the MIP inventory system to adjust for any damage/spoilage. A perpetual inventory system is not in place to account for items purchased, used, spoiled, or lost.
- The Chapter did not perform an inventory count of unused housing materials.
- The Chapter was unable to provide any documentation showing that Chapter Officials were monitoring chapter-specific projects or general operations.
- During our review of expenditures, we noted that internal control procedures were not followed for 13 out of 60 samples. The Chapter Secretary/Treasurer is not monitoring the accounting system and ensuring that documents are properly filed and completed according to records policies and procedures.

## 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. The Leupp Chapter did not fully implement the corrective action plan it proposed. As a result, there are still audit findings that remain unresolved. Therefore, we recommend that sanctions be levied against the Leupp Chapter in accordance with 12 N.N.C. Section 9(b) and 9(c).

*Harshwal & Company LLP*

Albuquerque, New Mexico  
March 30, 2018

## HCLLP CONTACT INFORMATION

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## AUDIT ISSUES, CORRECTIVE ACTIONS AND CURRENT STATUS

Chapter Corrective Actions	Status of Corrective Action
<b>Issue 1: 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.	Cannot determine due to the fact that the capital outlay fund was used as matching with NTUA and CIO powerline extension project. Per our discussion with the Chapter Manager, the chapter did not have any projects during the period of our review.
<b>Audit Issue Resolved: No</b>	
<b>Issue 2: 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.	Implemented
2. Chapter officials will present the budget to the community for approval via resolution.	Implemented
3. Chapter Administrative Assistant will post budget according to the adopted budget via resolution.	Implemented
<b>Audit Issue Resolved: Yes</b>	
<b>Issue 3: Fixed assets were not recorded in the accounting system and the financial statements.</b>	
1. Chapter Administrative Assistant will post the fixed asset information to the accounting system.	Not implemented: An accurate and complete fixed assets listing was not posted to the accounting system due to the fact that many required details were missing from the fixed assets listing. Therefore, fixed assets were not reported in the financial statements, and the Chapter Manager and Chapter officials were unable to complete a reconciliation of the accounting system to the list.
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>	
<b>Issue 4: 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 and equipment on an annual basis.	Not Implemented: Although the chapter has conducted a recent physical count of its inventory in November 2017, the completeness and accuracy of this count is incomplete. The provided listing was missing important information such as purchase date, tag number and in some cases, the amount.
<b>Audit Issue Resolved: No</b>	

<b>Issue 5: Perpetual inventory was not maintained for resale items.</b>	
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.	Not Implemented: The chapter had purchased 415 bales of hay totaling \$4,565 for resale to community members during the period of our review. The chapter recorded \$5,139 of hay revenue. However, a perpetual inventory system is not in place to account for items purchased, used, spoiled, or lost. In addition, a physical inventory count was not periodically performed to reconcile the resale inventory.
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.	
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.	
4. Chapter officials will review the perpetual inventory of resale items activity.	
<b>Audit Issue Resolved: No</b>	
<b>Issue 6: No inventory controls for unused housing materials.</b>	
1. Chapter Administrative Assistant will create an inventory control sheet for the unused housing materials in the warehouse.	Not Implemented: The Chapter has developed an inventory control sheet to keep track of its unused housing materials. However, the inventory control sheets that were provided to us are samples and have not been filled out with any data. As a result, the chapter has not properly recorded and accounted for the unused housing materials.
2. Chapter PEP workers will do inventory of housing materials and supplies in the warehouse.	
3. Chapter PEP workers will sign in and out for what they take and return.	
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.	
<b>Audit Issue Resolved: No</b>	
<b>Issue 7: 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.	Implemented
2. Chapter administrative staff will designate an individual to monitor certain chapter projects or operations according to FMS and Title 26.	Not implemented: The Chapter officials and management do not have a system of independent checks in place to verify the status or progress of projects specific to the chapter or general chapter operations. The chapter was unable to provide documentation showing that chapter officials were monitoring chapter- specific projects or general operations.



<p>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.</p>	<p>Not implemented: During our testwork over disbursements, we noted that internal control procedures were not followed for 13 out of 60 samples tested. The exceptions noted are as follows: for 2 samples, the fund approval form was missing. For 9 samples, some required documents were missing. For 2 samples, the wrong GL code was used. The Chapter Secretary/Treasurer did not ensure that all documents are properly filed and completed prior to disbursements.</p>
<p><b>Audit Issue Resolved: No</b></p>	
<p><b>Issue 8: Poor working relationship between Chapter administration and officials.</b></p>	
<p>1. Chapter officials and administration will communicate and make decisions in the best interest of the chapter community.</p>	<p>Implemented</p>
<p>2. Chapter officials will share information to the community membership at chapter meetings.</p>	<p>Implemented</p>
<p><b>Audit Issue Resolved: Yes</b></p>	