

OFFICE OF THE AUDITOR GENERAL

The Navajo Nation

A Second Follow-up Internal Audit of the Navajo Division of Transportation Corrective Action Plan Implementation


**Report No. 18-04
October 2017**

**Performed by:
Newberry & Associates, Ltd.**



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 : October 27, 2017

SUBJECT : A Second Follow-up Internal Audit of the Navajo Division of Transportation

The Office of the Auditor General herewith transmits Audit Report no. 18-04, A Second Follow-up Internal Audit of the Navajo Division of Transportation (NDOT) Corrective Action Plan Implementation. The second follow-up internal audit was conducted, in conjunction with Newberry & Associates, Ltd., Certified Public Accountant. The second follow-up determines the current status of the corrective action plan developed by NDOT in response to the 2013 performance audit wherein deficiencies were reported in the management of the Navajo Nation Road Fund. The 2013 audit report and the corrective action plan were approved by the Budget and Finance Committee on April 1, 2014 and directed the Office of the Auditor General to conduct a follow-up review on NDOT's implementation of their corrective action plan.

The first follow-up review released in January 2017 concluded that NDOT failed to implement their corrective action plan. Consequently, in March 2017, the Budget and Finance Committee sanctioned NDOT and directed the Office of the Auditor General to conduct a second follow-up review.

Second Follow-up Results

The Navajo Division of Transportation has implemented the corrective measures that were outlined in their corrective action plan except for one corrective measure relating to the implementation of a database software. The software is intended to track road improvement work, work orders, fleet maintenance and service requests, and to generate reports on the status of road maintenance services. NDOT anticipates holding a training on the implementation of the software in November 2017.

Conclusion

The Navajo Division of Transportation has made improvements in managing the Road Fund. Therefore, the Office of the Auditor General concluded to lift the sanctions against the Division of Transportation and the Division Director. The Office of the Controller will release all funds withheld to NDOT pursuant to Title 12 Section 9.

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**The Office of the Auditor General-Navajo Nation
Second Follow-up Internal Audit of Navajo Division of
Transportation (NDOT) in managing the Navajo Nation
Road Fund 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 September 2013 of the Navajo Division of Transportation (NDOT) management of the Navajo Nation Road Fund. The Special Review was to determine whether NDOT complied with the Road Fund requirements for road projects and road maintenance.

REDW LLC 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. REDW LLC identified significant areas where the CAP had not been implemented and therefore issues were not resolved.

Newberry & Associates performed a second follow-up internal audit to determine the current status of the CAP and whether NDOT management resolved the significant areas identified by REDW LLC that had not been implemented.

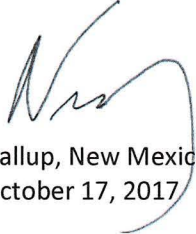
To gain an understanding of the processes and controls in place related to the second follow-up internal audit, we interviewed selected personnel, and examined documents and files that NDOT provided to determine if the information was relevant to the CAP. We also examined the notebooks of weekly reports and inventory to make sure the notebooks were complete. We examined several of the fuel usage reconciliation reports. Our examination included several files for open and closed projects to verify the procedures were in place. We verified that required information was on the NDOT website. We reviewed relevant issues with the IT manager related to software applications including technology setup and reports.

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

Prior Overall Finding	Number of CAP Components <u>IMPLEMENTED</u>	Number of CAP Components <u>NOT IMPLEMENTED</u>	Audit Issues Adequately Resolved?
NDOT needs improvement in managing Road Fund projects	24	None	Yes
Road Fund maintenance services lack accountability	18	1	Yes
Road Fund expenditures cannot be justified	19	None	Yes
Total	61 Implemented	1 Not Implemented	

CONCLUSION

Title 12, N.N.C. Section 8 imposes upon the NDOT the duty to implement the CAP according to the terms of the plan. The NDOT did implement the CAP. Consequently, the issues reported in the 2013 Special Review have been resolved. Accordingly, we recommend no sanctions be imposed on NDOT and management in accordance with 12 N.N.C. Section 9(b) and 9(c) for failure to implement the CAP. Details on all CAP components that were implemented and that were not implemented are included in the attached report.



Brett Newberry

Gallup, New Mexico
October 17, 2017

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**The Office of the Auditor General-Navajo Nation
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Transportation (NDOT) in Managing the Navajo Nation
Road Fund Corrective Action Plan Implementation**

Table of Contents

	Page
INTRODUCTION AND BACKGROUND	1
FUND ESTABLISHMENT AND PURPOSE	2
OBJECTIVE, SCOPE, AND METHODOLOGY	2-3
PRIOR FINDINGS, CORRECTIVE ACTIONS AND CURRENT STATUS	3-8



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**The Office of the Auditor General -Navajo Nation
Second Follow-up Internal Audit of NDOT in managing
the Navajo Nation Road Fund 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 August 2013 of the Navajo Division of Transportation's (NDOT) management of the Navajo Nation Road Fund. The review was to determine whether 1) NDOT complied with the Road Fund requirements for road projects and road maintenance, 2) all Road Fund expenditures directly related to the purpose of the fund, and 3) NDOT performance measures were being met for the road projects and road maintenance services. The audit resulted in three significant findings with related recommendations.

REDW LLC 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. REDW LLC identified significant areas where the CAP had not been implemented and therefore issues were not resolved.

Newberry & Associates performed a second follow-up internal audit to determine the current status of the CAP and whether NDOT management resolved the significant areas identified by REDW LLC that had not been implemented.

To gain an understanding of the processes and controls in place related to the second follow-up internal audit, we interviewed selected personnel, and examined documents and files that NDOT provided to determine if the information was relevant to the CAP. We also examined the notebooks of weekly reports and inventory to make sure the notebooks were complete. We examined several of the fuel usage reconciliation reports. Our examination included several files for open and closed projects to verify the procedures were in place. We verified that required information was on the NDOT website. We reviewed relevant issues with the IT manager related to software applications including technology setup and reports.

FUND ESTABLISHMENT AND PURPOSE

The Navajo Nation Road Fund was established in July 2001 by the Navajo Nation Council with the adoption of a fund management plan. In the plan, the Road Fund is defined as a special fund account to defray the cost of government services for the development, construction, and maintenance of Navajo Nation transportation projects that have not been included in the current short-term plans of the federal, state and county governments.

In 2003, the Road Fund regulations were initially adopted and later amended in 2006. In 2014, there were additional amendments to the Road Fund regulations. These regulations set forth the requirements for administering the Navajo Nation Road Fund. The Road Fund is intended for road projects and road maintenance. Road projects involve major transportation work such as new construction, rehabilitation, or reconstruction. Road maintenance refers to everyday maintenance work such as filling potholes, crack sealing, replacing damaged signs, and mowing.

OBJECTIVE, SCOPE, AND METHODOLOGY

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

The scope of this second follow-up internal audit was limited to those policies, reports, processes and controls that related to the NDOT CAP for the period of November 2016 to October 2017. There were certain NDOT CAP issues that required examination of prior year documents. We focused on evaluating the progress made subsequent to the 2013 Special Review and the REDW LLC follow-up 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 Policies & Procedures (P&Ps) to assess whether they had been updated based on the Special Review and the related CAP.
- Selected a sample of six open and closed projects and assessed the current status of each project. Specifically, we tested each project file to determine if:
 - The current status of each project had been assessed.
 - An action plan on how to complete each project had been established.
 - Any additional resources required to complete the project had been identified.
 - A timeline for project completion had been established.
 - Quarterly communication about the project, between project lead agents and stakeholders, had occurred.
 - Final inspection sheet was completed before final payment was made (closed projects).
- Selected quarters in fiscal year 2017 and assessed whether all required Form 2 reports (budget performance forms) were completed prior to the due date and that documentation was on file to support performance results reported.

- Selected several business days for each agency to determine if the daily logs were completed for road projects to justify performance results.
- Identified one parking lot project that was still pending from the prior audit and viewed supporting documentation to determine if the project would be completed by the extension date of September 2018.
- Examined several fuel log sheets to make sure reconciliation was completed.

PRIOR FINDINGS, CORRECTIVE ACTIONS AND CURRENT STATUS

FINDINGS/ISSUES	CORRECTIVE MEASURES	CURRENT STATUS
<i>Finding: NDOT needs improvement in managing Road Fund projects</i>		
ISSUES:	CORRECTIVE MEASURES:	
1. NDOT has not implemented the Road Fund project selection process since 2008.	1.1 Develop and implement a project management action plan; and completed all outstanding road projects within budget and timeline.	Implemented
	1.2 Establish project tracking system on Navajo DOT website; and provide a written project status reports to project lead agents on a quarterly basis.	Implemented
2. Project selection process needs improvement.	2.1 Revise the Road Fund regulations to ensure the regulations coincide with Navajo DOT's vision, goals, objectives and long-range transportation plan.	Implemented
	2.2 Develop and implement a heavy road maintenance and road improvement strategic plan in coordination with the Federal Highway Administration and BIA DOT based on chapter priority list.	Implemented
3. No documents to verify compliance with Road Fund project selection requirements.	3.1 Select and hire qualified Project Managers to undertake and manage the remaining FET Projects in conjunction with an On-Call engineering firm.	Implemented
	3.2 Establish an internal record management and policy to safeguard pertinent project records.	Implemented
	3.3 Identify and secure training on project management, record keeping to make sure pertinent records are consistently maintained.	Implemented
	3.4 Enforce and ensure appropriate project records are systematically maintained during any future road improvement processes once the Road Fund Management and Road Fund regulations are amended.	Implemented
4. Road Fund parking lot projects are not a typical road project.	4.1 Develop eligible heavy road maintenance and road improvement pursuant to amendments of the Road Fund regulations. Parking lot(s) are no longer apart of the eligible heavy road maintenance and road improvement.	Implemented

FINDINGS/ISSUES	CORRECTIVE MEASURES	CURRENT STATUS
5. Routine maintenance work characterized as road project is questionable.	4.2 Complete the existing parking lots projects within OMB's approved extension of project end dates. 5.1 Coordinate with BIA DOT and chapter(s) and implement the Regional Transportation Plan for routine road maintenance activities.	Implemented Implemented
6. NDOT lacks a well-defined project management system.	6.1 Select and procure contractual services with an on-call engineering firm to manage project development, project management, undertake engineering/design, construction oversight of Road Maintenance and Road Improvement work and project closeouts. 6.2 Develop and implement project management guidelines. 6.3 Employ qualified personnel to enforce and undertake the project management guidelines. 6.4 Review and assess the feasibility of completing task management system on a quarterly basis.	Implemented Implemented Implemented Implemented
7. NDOT website does not provide pertinent project information.	7.1 Employ an IT Manager and/or perform a feasibility assessment of establishing an internal IT component versus outsourcing IT needs. 7.2 Based on assessment, develop internal policies and procedures on maintaining IT infrastructure. 7.3 Research other DOT entities to solicit ideas and developed and improved website. 7.4 NDOT's IT Manager and IT staff will develop, update and manage website periodically with pertinent road project status for viewing by the public.	Implemented Implemented Implemented Implemented
8. Actual performance results for completed road projects were inflated.	8.1 Implement and keep record (consistent with BIA DOT 82 IAM Road Maintenance Handbook) of Date, Employee Name/Identifier, Organization, Route Number, Location on Route, Miles, Equipment used (Type and number), and type of road maintained for all work performed under the Regional Transportation Plan, BIA 638 Contract and FET routes. 8.2 Submit records quarterly to the appropriate BUREAU Agency Road Engineer, at the Department of Roads, Navajo DOT, for forwarding to FHWA and Navajo Regional Office Division of Transportation for review, verification, and use in the OMB Form 2 reporting.	Implemented Implemented

FINDINGS/ISSUES	CORRECTIVE MEASURES	CURRENT STATUS
9. NDOT will take a minimum of 5 more years to complete outstanding road projects.	9.1 Assess the current status of each open project. 9.2 Establish an action plan on how to complete each project. 9.3 Identify additional resources needed to complete the project. 9.4 Establish a timeline for completion. 9.5 Communicate plans and update quarterly with project lead agent and stakeholders.	Implemented Implemented Implemented Implemented Implemented
10. No feasibility study to justify NDOT proposal to use the Road Fund only on road maintenance.	10.1 Conduct a feasibility study and cost benefit analysis to justify the changes to the intent and use of the Road Fund. 10.2 Ensure the study addresses any and all potential risks that may arise from these changes. 10.3 Obtain input from stakeholders about the changes and potential impacts. 10.4 Share the results of the study with the oversight committee(s) of the Navajo Nation Council.	Implemented Implemented Implemented Implemented

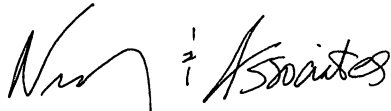
FINDINGS/ISSUES	CORRECTIVE MEASURES	CURRENT STATUS
<i>Finding: Road Fund maintenance services lack accountability.</i>		
<u>ISSUES:</u>	<u>CORRECTIVE MEASURES:</u>	
1. NDOT lacks key documents to govern its Road Fund maintenance services.	1.1 Research other DOT entities to identify appropriate skill sets needed for road maintenance management and staff. 1.2 Develop and implement a training plan and budget for staff to strengthen knowledge base and acquire necessary skills. 1.3 Compile and establish key documents such as Blading Schedule, Annual Work Plan, Snow and Ice Removal Plan, Traffic Control Plan and Road Maintenance Standards Annual Work Plans that governs the routine road maintenance services/activity. 1.4 Train management and staff on key documents. 1.5 Post key documents available on the Navajo DOT website for reference and public information.	Implemented Implemented Implemented Implemented Implemented
2. NDOT lacks a defined work order process for road maintenance services.	2.1 Perform a cost-benefit analysis of the current reporting system of road maintenance services/activities. 2.2 Based on analysis, identify resources to invest in applicable software such as database software application called Pub Works to track road improvement work, work orders, fleet maintenance, service requests, create/print status reports and task management system. 2.3 Arrange for proper training of staff on hardware and software.	Implemented Implemented Implemented

FINDINGS/ISSUES	CORRECTIVE MEASURES	CURRENT STATUS
	2.4 Monitor the system and host periodic retraining to achieve intended results.	Not Implemented Pub Works training will take place November 2017.
3. Reporting of road maintenance services is incomplete.	3.1 Assess the current reporting system for road maintenance services/activities to identify limitations.	Implemented
	3.2 Based on assessment, identify options of how to address the limitations.	Implemented
	3.3 Earmark funds to implement options.	Implemented
	3.4 Develop an action plan to ensure project will be completed on schedule and within budget.	Implemented
4. Poor accountability of fuel usage for heavy equipment.	4.1 Establish internal policies and procedures of its reporting processes.	Implemented
	4.2 Provide ongoing training to field staff on policies and procedures.	Implemented
	4.3 Perform monitoring of fuel activities such as spot checks of fuel levels in tanks based on meters against running balances on transfer logs.	Implemented
	4.4 Address any anomalies in a timely manner.	Implemented
5. Real-time-tracking system of NDOT heavy equipment has limitations.	5.1 Research other DOT entities to identify other methodologies for tracking heavy equipment.	Implemented
	5.2 Ensure that GPS are equipped and operational on all modern equipment.	Implemented
	5.3 Implement a cost-feasible alternative to compensate for limitations by current systems.	Implemented
	5.4 Develop an asset management plan for its vehicles and heavy equipment.	Implemented
6. Actual performance results for road maintenance services are questionable.	6.1 Obtain training from OMB on preparing the quarterly performance reports.	Implemented
	6.2 Require management to review the performance reports before they are submitted to OMB.	Implemented
	6.3 Incorporate the Annual Work Plan for road maintenance services/activities into the Annual performance measures.	Implemented

FINDINGS/ISSUES	CORRECTIVE MEASURES	CURRENT STATUS
Finding: Road Fund expenditures cannot be justified.		
<u>ISSUES:</u>	<u>CORRECTIVE MEASURES:</u>	
1. Fixed assets purchased with the Road Fund are not properly accounted for.	1.1 Establish internal policies and procedures on asset management. 1.2 Ensure that property staff obtains proper training on asset management and controls. 1.3 Require Senior Property Clerk to establish a process of reconciling NDOT records to OOC records on a periodic basis. 1.4 Require Senior Property Clerk to report and address any discrepancies in a timely manner. 1.5 Request for a formal asset management review.	Implemented Implemented Implemented Implemented Implemented
2. Property purchased with the Road Fund are not tagged and inventoried.	2.1 Assess current property controls to identify areas of improvement. 2.2 Clarify supervision for the Senior Property Clerk. 2.3 Monitor the Senior Property Clerk's activities to ensure NDOT's property needs are being prioritized.	Implemented Implemented Implemented
3. \$4.6 million of Road Fund used for inventory management system cannot be fully justified.	3.1 Assess the current status of the inventory management system and identify the work and resources needed to get the GPS station network operational. 3.2 Evaluate the feasibility of completing the inventory project based on assessment. 3.3 Develop a plan and budget on how to complete the inventory management system. 3.4 Review applicable records and make site visits to inventory all equipment purchased under previous contracts. 3.5 Ensure the Senior Property Clerk includes the equipment on NDOT's overall property listing.	Implemented Implemented Implemented Implemented Implemented
4. \$500,000 of Road Fund was used for a task management system that is dormant.	4.1 Assess the current status of the task management system. 4.2 Evaluate the feasibility of completing the project based on assessment. 4.3 Develop a plan and budget on how to complete the task management system. 4.4 Implement the system and ensure applicable staff proper training on the system.	Implemented Implemented Implemented Implemented
5. Road Fund was used to subsidize maintenance services under federal contract.	5.1 Develop and implement a proper reporting system for road maintenance services/activities such as database software application called Pub Works to track road improvement work, work orders, fleet maintenance, and service requests, create/print status reports and task management system.	Implemented

FINDINGS/ISSUES	CORRECTIVE MEASURES	CURRENT STATUS
	5.2 Compile data of fuel purchases and enforce equipment usage applicable to the BIA, FHWA and FET routes.	Implemented
	5.3 Seek cost reimbursements to BIA in a timely manner.	Implemented

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.



Gallup, New Mexico
October 17, 2017