

## OFFICE OF THE AUDITOR GENERAL

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### The Navajo Nation

#### A Special Review of Smith Lake Chapter

**Report No. 18-33**  
**September 2018**

Performed by:  
Karen Briscoe, Principal Auditor  
Summer Tracy, Associate Auditor



September 27, 2018

Anselm Morgan, President  
**SMITH LAKE CHAPTER**  
P.O. Box 60  
Smith Lake, NM 87365

Dear Mr. Morgan:

The Office of the Auditor General herewith transmits Audit Report No. 18-33, A Special Review of the Smith Lake Chapter. The audit objective was to verify Chapter funds were spent in accordance with Navajo Nation and Chapter policies and procedures. During the period of examination - October 1, 2015 to September 30, 2017 - \$446,423 was disbursed. Our review revealed the Chapter has not implemented appropriate controls and compliance with laws. Listed below are the issues identified:

**FINDING I:** Property Management and Reporting was found to be deficient as evidenced by the following issues:

- Fixed assets are not reported in financial statements;
- Insurance for Chapter property is not obtained timely;
- Not all Chapter property items are tagged with identification numbers, and tagged items have property identification numbers that do not match the inventory.

**FINDING II:** New hires are not all reported to the State.


**FINDING III:** There are no documented controls in place for the management of Chapter projects.

**FINDING IV:** Complete financial reports are not provided to the community each month.

Detailed explanations on all audit issues can be found in the body of the report. The audit report provides recommendations for remediation of the reported findings. Also in addition to the four reported findings, other issues for consideration not significant to the audit objectives but warrant the attention of those charged with governance was reported separately from this audit report to the Chapter official and administration staff.

If you have any questions about this report, please call our office at (928) 871-6303.

Sincerely,



Elizabeth Begay, CIA, CFE  
Auditor General

xc: Elerina Yazzie, Vice-President  
Malissa Hill Begay, Secretary/Treasurer  
Edmund E. Yazzie, Council Delegate  
Leatricia Kay Bennett, Community Services Coordinator  
**SMITH LAKE CHAPTER**  
Johnny Johnson, Department Manager II  
**ADMINISTRATIVE SERVICES CENTER/DCD**  
Chrono

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## **OBJECTIVE, SCOPE, AND METHODOLOGY**

The following objectives were established for this audit:

1. Determine if Chapter property management includes financial statement reporting of fixed assets, insuring of property, and tagging of property.
2. Determine if new hires are reported to the State.
3. Determine if appropriate controls are in place for the management of Chapter projects.
4. Determine if complete financial reports are provided to the Chapter membership each month at a Chapter meeting.

The audit covers activities for the 24-month period of October 1, 2015 through September 30, 2017.

To meet the audit objectives, we interviewed Chapter administration and officials, observed Chapter operations, and examined available records. Additionally, we judgmentally selected a set of expenditure samples and reviewed the process to determine if there were adequate and executed controls including adherence to compliance requirements.

## **GOVERNMENT AUDITING STANDARDS**

We conducted this performance audit 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.

The Office of the Auditor General would like to express its appreciation to the Smith Lake Chapter officials and administration for their cooperation and assistance throughout the audit.

## **REVIEW RESULTS**

**FINDING I:                   PROPERTY MANAGEMENT AND REPORTING WAS FOUND TO BE DEFICIENT AS EVIDENCED BY THE FOLLOWING ISSUES.**

**ISSUE 1:                   FIXED ASSETS ARE NOT REPORTED IN THE FINANCIAL STATEMENTS.**

**CRITERIA:**               The Fiscal Policies and Procedures, Section VII.F, requires the Accounts Maintenance Specialist to record fixed assets to the accounting system so they are included in the financial statements.

**CONDITION:**           The financial statements did not report the value of Chapter fixed assets (such as buildings, heavy equipment, etc.).

**EFFECT:**                The Chapter’s assets are understated by \$485,000 in the financial statements.

**CAUSE:**                 The Accounts Maintenance Specialist does not know how to record the value of fixed assets to the accounting system and has not contacted the Administrative Service Center for technical assistance to address this issue.

**RECOMMENDATION:**   1. Fixed assets need to be accurately accounted for in the financial statements. The Accounts Maintenance Specialist should contact the Administrative Service Center for technical assistance and training on recording fixed assets accurately in the accounting system.  
2. The Community Services Coordinator should verify that the Accounts Maintenance Specialist records fixed assets to the accounting system.

**ISSUE 2:                   INSURANCE FOR CHAPTER PROPERTY IS NOT OBTAINED TIMELY.**

**CRITERIA:**               The Property Policies and Procedures, Section IV, requires the Chapter to maintain adequate insurance coverage for Chapter property.

**CONDITION:**           The Chapter did not have property insurance coverage for FY 2016 and 2017 because they allowed coverage to lapse until January 2018. The Chapter conducted a physical inventory in November 2017 and obtained insurance coverage for their property as of January 2018 to cover fiscal year 2018 from October 1, 2017 to September 30, 2018.

**EFFECT:**                Chapter property valued at approximately \$500,000 could be unrecoverable had there been theft or destruction.

**CAUSE:**                 The Community Services Coordinator did not direct the Accounts Maintenance Specialist or temporary employees to complete a physical inventory of Chapter property for FY 2016 and 2017. An annual physical inventory is required to complete the Underwriting Exposure Summary report, which along with the inventory list, is required by the Risk Management Department to obtain insurance.

**RECOMMENDATION:**   1. The Community Services Coordinator should ensure that a physical inventory is conducted annually, before year-end, by the Accounts Maintenance Specialist or temporary employees and submit it and the

Underwriting Exposure Summary report, to Risk Management Department.

2. The Accounts Maintenance Specialist should process and pay for property insurance in a timely manner to avoid lapses in coverage.

**ISSUE 3: NOT ALL CHAPTER PROPERTY ITEMS ARE TAGGED WITH IDENTIFICATION NUMBERS AND TAGGED ITEMS HAVE PROPERTY IDENTIFICATION NUMBERS THAT DO NOT MATCH THE INVENTORY.**

**CRITERIA:** The Property Policies and Procedures, Section VII, requires Chapter property to be tagged with identification numbers. In addition, the Chapter is required to maintain a complete and accurate asset list of Chapter property.

**CONDITION:** 10 of 30 (33%) property items reviewed were not tagged. In addition, 10 of the 20 (50%) property items that were tagged did not match the property number recorded in the inventory.

**EFFECT:** In the event of lost or stolen property, the Chapter will not be able to identify the property for insurance purposes.

**CAUSE:** In November 2017, the Community Services Coordinator assigned temporary employees to complete a physical inventory of property but did not direct them to ensure all property is tagged. In addition, the Community Services Coordinator and Accounts Maintenance Specialist acknowledged that they did not review their work for accuracy.

- RECOMMENDATION:**
1. The annual physical inventory process should include steps to ensure that all property is tagged and the property identification tags are accurate. The Community Services Coordinator should ensure that the physical inventory and verification of tags is done annually and prior to year-end.
  2. The Community Services Coordinator and Accounts Maintenance Specialist should monitor and review the physical inventory to ensure its accuracy.

**FINDING II: NEW HIRES ARE NOT ALL REPORTED TO THE STATE.**

**CRITERIA:** Under New Mexico Law, Chapter 50, Article 13, employers are required to report newly hired and re-hired employees to the state within 20 days of their hire date. No one is exempt from reporting.

**CONDITION:** 30 out of 70 personnel files were reviewed to verify that new hires were reported to the State. 13 out of 30 (43%) personnel were not reported to the State of New Mexico as new hires. All 13 were under the age of 18.

**EFFECT:** The Chapter could be fined anywhere from \$20 to \$500 for each unreported new hire resulting in potential fines from \$260 to \$6,500 for the 13 employees.

**CAUSE:** The Accounts Maintenance Specialist did not know that individuals under the age of 18 are also required to be reported as new hires to the State. The Community Services Coordinator did not review the work of the Accounts Maintenance Specialist to ensure all new hires are reported.

- RECOMMENDATION:**
1. The Accounts Maintenance Specialist should access the state website for reporting requirements and have a copy on file at the Chapter for reference.
  2. The Community Services Coordinator should periodically reconcile new hire reports to personnel files to verify that the Accounts Maintenance Specialist reported all new hires to the State.

**FINDING III:                    THERE ARE NO DOCUMENTED CONTROLS IN PLACE FOR THE MANAGEMENT OF CHAPTER PROJECTS.**

**CRITERIA:**                    The Fiscal Policies and Procedures, Section VII, states the Chapter must establish internal controls to ensure Chapter assets and resources are protected against waste, loss and inefficiency.

**CONDITION:**                The Chapter does not have documented project management policies and procedures for planning, eligibility requirements, execution, monitoring, completion, and reporting of Chapter projects to protect the Chapter against waste, loss and inefficiencies. The Chapter spent \$189,207 on numerous Chapter projects such as bathroom addition, house wiring, roofing, and renovation projects without proper project management to ensure projects are successfully completed with minimal or no waste, loss, and inefficiency.

**EFFECT:**                      Without formal policies and procedures to ensure proper planning and monitoring of projects, unforeseen issues may arise resulting in additional costs and lost time.

**CAUSE:**                        The Chapter officials and the Administrative Service Center do not monitor the Community Services Coordinator to ensure the Chapter has appropriate controls in place for project management.

- RECOMMENDATION:**
1. The Chapter staff and officials should document policies and procedures with appropriate controls for project management to include: planning, eligibility requirements, execution, monitoring, completion, and reporting for Chapter projects.
  2. The Community Services Coordinator should ensure the policies and procedures are implemented.

**FINDING IV:                    COMPLETE FINANCIAL REPORTS ARE NOT PROVIDED TO THE COMMUNITY EACH MONTH.**

**CRITERIA:**                    Title 26 of the Local Governance Act, Section 1001.3 (i) and the Fiscal Policies and Procedures, Section VII.L requires the Chapter administration to generate basic financial statements including a balance sheet, the statement of revenues and expenditures and a budget to actual report. The Secretary/Treasurer is responsible for presenting the financial reports to the Chapter membership at a Chapter meeting each month.

- CONDITION:** Based on review of the Chapter meeting minutes, completed financial reports and an explanation of the Chapter's financial position is not presented to the membership each month. In FY 2016, the Chapter only provided a summary report of Chapter finances at the fiscal year-end. According to the Secretary/Treasurer, financial reports were provided to the Chapter membership during FY 2017 but this action was not documented in the meeting minutes.
- EFFECT:** In the absence of complete financial reports, the Chapter membership cannot make informed financial decisions.
- CAUSE:** In FY 2016, the Chapter staff did not provide the financial reports to the Secretary/Treasurer. In FY 2017, the Secretary/Treasurer did not document the financial report presentation in the meeting minutes.
- RECOMMENDATION:**
1. Chapter staff should provide all financial statements to the Secretary/Treasurer each month in preparation for the Chapter meeting.
  2. The Secretary/Treasurer should report the budget to actual, balance sheet, and statement of revenues and expenditures to the community membership and explain the Chapter's financial position.
  3. The Secretary/Treasurer should document the financial report presentation in the meeting minutes.

### **Conclusion**

The Chapter is not consistently spending funds in accordance with Navajo Nation and Chapter policies and procedures. The Chapter has not implemented appropriate controls and is not in compliance with laws. These deficiencies resulted in the four findings identified in the audit report.



**AUDITEE RESPONSE**



# SMITH LAKE CHAPTER

## The Navajo Nation

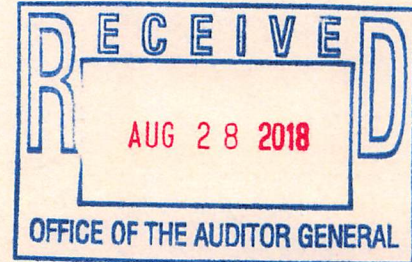
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Russell Begaye, NN President

Jonathan Nez, NN Vice President

Edmund Yazzie, Council Delegate

August 27, 2018



Ms. Elizabeth Begay, Auditor General  
Navajo Nation  
Window Rock, Arizona


Ref: Response to the Special Review

Smith Lake Chapter staff and officials have received the Special Review of Smith Lake Chapter. We understand there is a need for a plan of action to address the corrections that have been identified in the document with recommendations from the auditing staff.

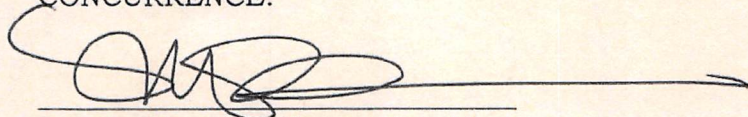
Therefore, we will work together to develop a corrective action plan that suits the recommendations identified. This will be submitted to the Auditor's Office for review in the next 30 days as required.

Should you have any questions, please feel free to contact the Smith Lake Chapter at 505.786.2141.

Respectfully,

  
Leatrice Bennett Cowboy, Community Services Coordinator

CONCURRENCE:

  
Anselm Morgan, Chapter President

cc: Johnny Johnson, ASC Department Manager II  
Chapter File