

OFFICE OF THE AUDITOR GENERAL

The Navajo Nation

A Special Review of Pueblo Pintado Chapter

Report No. 18-28

June 2018

Performed by:
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Auditor



June 15, 2018

Rena Murphy, President
PUEBLO PINTADO CHAPTER
HCR 79 Box 3026
Cuba, NM 87013

Dear Ms. Murphy:

The Office of the Auditor General herewith transmits Audit Report 18-28, A Special Review on Pueblo Pintado Chapter. The audit objective was to verify whether the Chapter spent funds in accordance with Navajo Nation and Chapter policies. A total of \$456,295 was disbursed from all funding sources during the period of our examination from October 1, 2015 through September 30, 2017. Our review revealed that the Chapter is unaware of Chapter and Navajo Nation laws, rules and regulations and has not implemented appropriate controls. Listed below are the five findings identified in the special review.

- Finding I :** The Accounts Maintenance Specialist spent \$144,496 on unnecessary office supplies.
- Finding II :** Housing assistance is awarded to applicants whose required documentation is missing.
- Finding III:** Budgets and expenditures are not accurately posted in the accounting system.
- Finding IV:** Temporary employees' wages and personnel files are not supported with required documentation.
- Finding V :** Chapter paid vendors without approval and required documentation and entered into a contract without going through the bidding process.

In addition to the audit findings, the report provides recommendations to improve management of the Chapter finances and activities. If you have any questions about this report, please call our office at (928) 871-6303.

Sincerely,



Elizabeth Begay, CIA, CFE
Auditor General

xc: Erlene Henderson, Vice-President
Rhea Murphy-Willeto, Secretary/Treasurer
Leonard Tsosie, Council Delegate
PUEBLO PINTADO CHAPTER
Johnny Johnson, Department Manager II
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INTRODUCTION AND BACKGROUND

The Office of the Auditor General has conducted a Special Review of Pueblo Pintado Chapter for the 24-month period ending September 30, 2017 pursuant to the authority vested in the Office of the Auditor General by 12 N.N.C., Chapter 1, § 1 - 10.

Pueblo Pintado Chapter is a political subdivision of the Navajo Nation and is considered a general purpose local government for reporting purposes. Navajo Nation chapters are required to operate under Title 26 of the Navajo Nation Code, the Local Governance Act. The Chapter administrative duties are performed by the Community Services Coordinator and Accounts Maintenance Specialist. Oversight responsibility is provided by the elected Chapter officials and the Administrative Service Centers.

The majority of the Chapter 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 level. The direct services funds are considered restricted funds with specific intended purposes. The Chapter also generated internal revenues from fees collected for providing miscellaneous services. Any unexpended funds at the end of the fiscal year are to be carried over to the next fiscal year.

The Chapter expended \$196,590 (or 43%) for direct services and \$259,705 (or 57%) for indirect services. Direct services include: housing assistance, student assistance, community development, emergency relief, social services, capitalized services (i.e. bathroom addition, chapter renovation, etc.), and short-term employment. Indirect services include: operating services (i.e. office supplies, Chapter electric expense, etc.), stipends, and travel.

Objective, Scope, and Methodology

The following objectives were established for this audit:

- Determine if the Chapter purchased supplies that were not needed by the Chapter.
- Determine if housing financial assistance was supported with required documentation.
- Determine if the Chapter accurately posted budgets and expenditures to the accounting system.
- Determine if temporary employees' wages and personnel files were supported with required documents.
- Determine if the Chapter paid vendors with proper approval, required documentation and entered into contracts by going through the bidding process.

Audit Scope:

- Chapter expenditures for direct and indirect services for the 24-month period of October 1, 2015 through September 30, 2017.
- Chapter expenditures for office supplies purchased from seven vendors for the 65-month period of July 3, 2012 to November 21, 2017.

In meeting the audit objective, we interviewed the Chapter administration and officials, observed Chapter operations, and examined available records. More specifically, we tested samples of expenditures for internal controls and compliance requirements by using a non-statistical, judgmental method.

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 expresses its appreciation to the Pueblo Pintado Chapter officials and administration for their cooperation and assistance throughout the audit.

REVIEW RESULTS

FINDING I: THE ACCOUNTS MAINTENANCE SPECIALIST SPENT \$144,496 ON UNNECESSARY OFFICE SUPPLIES.

CRITERIA: Navajo Nation Code Title 2 Ethics in Government Law § 3742 (2.) requires public officials and employees to abstain from using any function of their office or duties in a manner which could place, or appear to place, their personal economic or special interests before the interests of the general public.

CONDITION: Generally, the Chapter budgets \$1,000 per year for office supplies. However, for a five year period beginning July 3, 2012 to November 21, 2017, the Chapter spent \$144,496 for office supplies which translates to approximately \$30,000 a year. The Accounts Maintenance Specialist processed checks and authorized automatic withdrawals from the Chapter’s bank account to pay seven vendors for office supplies. Based on the physical inventory of the Chapter’s storage area on December 18, 2017, the following items were stored:

Type	Count
Ball point pen	1,008
Sharpie Marker	216
Print Toner	159

The office supplies were stored at the Chapter beginning in 2012. The Accounts Maintenance Special did not consider the interest of the Chapter membership when placing excessive orders of office supplies.

EFFECT: \$144,496 spent on excess office supplies could have been used to provide other services to the Chapter membership.

- CAUSE:**
1. The Accounts Maintenance Specialist was solely processing the order of goods without the knowledge of the Community Services Coordinator and Chapter officials. No one independent of the Accounts Maintenance Specialist was reviewing the financial reports to verify if funds were being spent within the budget limits.
 2. The Accounts Maintenance Specialist admitted to forging the Chapter President and Chapter Vice-President’s signatures on the checks issued to one vendor.
 3. The Accounts Maintenance Specialist collected promotional/rebate checks from three vendors totaling \$1,650 that she used for her own personal benefit. There is a possibility that there were more promotional/rebate checks that the Accounts Maintenance Specialist collected.

- RECOMMENDATION:**
1. The Chapter staff and officials should ensure that no one individual is in the position to process the order of goods and authorize payments.
 2. The Community Services Coordinator should review the financial reports to ensure funds are being spent within the budget limits.

3. The Community Services Coordinator should review the transactions posted in the accounting system, the automatic withdrawals, and check disbursements posted in the bank statements, and address discrepancies immediately.
4. The Accounts Maintenance Specialist should be held accountable for ordering excessive supplies and cashing in rebate checks.

FINDING II: HOUSING ASSISTANCE IS AWARDED TO APPLICANTS WHOSE REQUIRED DOCUMENTATION IS MISSING.

CRITERIA: Housing Discretionary Policies and Procedure, Section IV, requires the Chapter to verify eligibility of housing applicants against required documents, to complete home assessments to evaluate the applicant’s needs, and to evaluate applicants for priority.

CONDITION: For the 24-month audit period, housing recipient files for 48 out of 129 recipients were reviewed (\$18,290 out of \$48,524 awarded) to verify if the required documentation was on file. The following exceptions were noted:

Type of Exception	Number of Exceptions
Home site leases were not on file.	29 of 48 (or 60%)
Home assessments to evaluate the applicant’s need were incomplete.	42 of 42 (or 100%)
Income verification was not on file.	13 of 48 (or 27%)
Property maps were not on file.	8 of 48 (or 17%)
Evaluation or ranking sheets were not on file.	48 of 48 (or 100%)

The Chapter awarded \$18,290 of housing assistance to 48 recipients although required documentation was missing.

EFFECT: Eligible and needy applicants may not receive the assistance they need because the limited funds are not being prioritized, and applicants are not being verified for eligibility.

CAUSE: The Community Services Coordinator did not document the assessment to provide evidence that the housing was in need of repair, renovation, or improvements. The Accounts Maintenance Specialist did not effectively use the check-off list for ensuring all required documents were on file. No one independent of the Accounts Maintenance Specialist verified that all required documents were on file prior to approving assistance.

RECOMMENDATION:

1. The Community Services Coordinator should document the assessment to provide evidence that the housing is in need of repair, renovation, or improvements.
2. The Accounts Maintenance Specialist should use the approved check-off list to ensure all required documents are on file prior to approving assistance. The Chapter should also assign an independent person to review the documents before payment.

FINDING III: BUDGETS AND EXPENDITURES ARE NOT ACCURATELY POSTED IN THE ACCOUNTING SYSTEM.

CRITERIA: The Fiscal Policies and Procedures, Section V.D. requires the Chapter to ensure that the Chapter's accounting system provides reliable and consistent financial information on a timely basis.

CONDITION: Budgets and expenditures were not accurately posted in the accounting system.

\$36,462 appropriations were not entered in the accounting system. For instance, \$19,479 of appropriations for the Capital Improvement Project Fund was never included in the accounting system.

The Chapter did not post the carry over negative fund balances from fiscal year 2016 into fiscal year 2017, a total amount of \$73,377. Also, the Chapter did not post an expenditure reimbursement of \$849.

Expenditures were miscoded and cleared checks were not posted. A coal purchase was coded as a hay purchase, and an expense for funeral donation was coded as building materials.

Furthermore, three checks totaling \$1,228 cleared the bank, but were not posted in the accounting system.

EFFECT: The Chapter's accounting system is unreliable. Therefore, the Chapter staff and officials are misinforming the Chapter membership with inaccurate financial statements. Also, the Chapter is relying on inaccurate finances that could lead to the Chapter having negative fund balances.

CAUSE: The Community Services Coordinator and Chapter Secretary/Treasurer are not reviewing the accounting system to ensure postings are accurate.

RECOMMENDATION: The Community Services Coordinator and Chapter Secretary/Treasurer should review the expenditure journal, budgets, and fund balances after the Accounts Maintenance Specialist posts amounts into the accounting system.

FINDING IV: TEMPORARY EMPLOYEES' WAGES AND PERSONNEL FILES ARE NOT SUPPORTED WITH REQUIRED DOCUMENTATION.

Issue 1: Temporary employees' personnel files are incomplete.

CRITERIA: The Fiscal Policies and Procedures, Section VII.H requires the Chapter to maintain personnel records for each employee including a social security card, identification card, parental consent for minor (14 to 17 years old), and evidence of reporting new hires to the State. The Chapter also is to ensure that worker's compensation is available for all Chapter employees.

New Mexico Law (§50-13-1-50-13-4) and the Federal Personal Responsibility and Work Opportunity Reconciliation Act of 1996 require that all new hires be reported to the State within 20 days.

CONDITION: For the 24-month audit period, personnel files for 20 of 56 temporary employees were reviewed, and the following exceptions were noted:

Type of Exception	Number of Exception
Employment Application Forms were not complete.	2 of 20 (or 10%)
Social Security Card and Identification Card were not on file.	4 of 20 (or 20%)
Employees were not reported to the state as new hires.	9 of 20 (or 45%)
Parental consent forms for minor workers were not on file.	2 of 13 (or 15%)
Employees were not covered with workers compensation insurance.	7 of 20 (or 35%)

EFFECT: The Chapter cannot provide assurance that 20 employees are properly hired and authorized to receive wages. Furthermore, not reporting new hires to the State poses a risk of a fine up to \$500 per employee for a total potential fine of \$4,500 for nine employees reviewed. Additionally, there is risk that the Chapter employees are not covered if an injury occurs on the job.

CAUSE: The Chapter does not use a check-off list for personnel documentation that needs to be collected and on file before hiring temporary employees.

- RECOMMENDATION:**
1. The Community Services Coordinator should develop a check-off list that the Accounts Maintenance Specialist can use to verify that all required documents are submitted by the temporary employees, that new hires are reported to New Mexico State using the new hire forms, that parent’s signatures are obtained on the parent consent form, and that employees are covered with worker’s compensation program.
 2. The Community Services Coordinator should review that all required documents are submitted, that new hires are reported to New Mexico State, and that parent’s signatures are obtained on the parent consent forms before anyone is added to payroll.

Issue 2: Temporary employees’ wages are not reviewed and approved by the Chapter Community Services Coordinator.

CRITERIA: The Fiscal Policies and Procedures, section VII.H requires the Chapter to maintain attendance/timesheets to document the hours worked by the employees and to ensure employees are paid only the actual hours worked. In addition, the Chapter Community Services Coordinator should review all timesheets, and sign the payroll checks. The Chapter Community Services Coordinator should then forward the

payroll check with applicable documents for review and co-signature to the Chapter Sectary/Treasurer.

CONDITION: For the 24-month audit period, wage records for 20 of 56 temporary employees were reviewed (\$11,187 out of \$75,406 paid). None of the 20 timesheets tested were reviewed and approved by the Community Services Coordinator.

EFFECT: The Chapter may have paid employees for hours they did not actually work.

CAUSE: The Community Services Coordinator did not verify that the employee sign-in and sign-out sheets reconciled with the master timesheet prior to approving payroll to be processed.

- RECOMMENDATION:**
1. The Community Services Coordinator should verify that supporting documents are attached with complete timesheets and then sign the timesheet for approval.
 2. The Community Services Coordinator should verify that the sign-in and sign-out sheets reconcile with the master timesheet to ensure payroll is accurate.

FINDING V: CHAPTER PAID VENDORS WITHOUT APPROVAL AND REQUIRED DOCUMENTATION AND ENTERED INTO A CONTRACT WITHOUT GOING THROUGH THE BIDDING PROCESS.

Issue 1: Operating expenditures are processed without all supporting documentation.

CRITERIA: The Navajo Nation Procurement Rules and Regulation, section V. (A) requires the Chapter to obtain three price quotations, maintain receipts and invoices, and prepare a receiving report for goods and services received. Fiscal Policies and Procedures, Section VII (B) (2) (b), requires that a cash disbursement have a Fund Approval Form indicating payment approval and be supported with documents before preparing a check.

CONDITION: 48 payments to vendors totaling \$129,406 out of a total of \$134,541 of the total operating expenditures during the 24-month audit period were tested. The following exceptions were noted:

Type of Exception	Number of Exception
3 vendor quotations were not obtained.	42 of 43 (or 98%)
Receiving reports were not completed.	31 of 48 (or 65%)
Payments were not supported with original receipts and invoices.	27 of 48 (or 56%)
Payment (fund approval form) to vendor was not approved by Community Services Coordinator and Chapter Secretary/Treasurer.	36 of 48 (or 75%)

EFFECT: The Chapter may have paid higher prices and not received the goods and services procured.

CAUSE: The Community Services Coordinator and Chapter officials did not verify the fund approval forms were supported with the required documentation.

RECOMMENDATION:

1. The Accounts Maintenance Specialist should prepare a Fund Approval Form indicating payment authorization and support with appropriate documents (i.e., quotes, receiving reports and invoices/receipts, or similar documents) before preparing checks.
2. The Community Services Coordinator and Chapter Secretary/Treasurer should verify the supporting documentation for operating expenditures are obtained and on file.

Issue 2: A contractor was paid \$39,842 without going through the bidding process.

CRITERIA: The Navajo Nation Procurement Rules and Regulations, section V. (D) requires the bidding process be followed to ensure the selection of the best qualified contractors and vendors at competitive prices. The contract is to document the services procured. The contract is required to be reviewed and approved through the Navajo Nation review process.

CONDITION: The Chapter did not conduct the bidding process to select a contractor. In addition, the Chapter entered into a direct professional service contract that was not reviewed and approved through the Navajo Nation central office.

EFFECT: The Chapter may have selected a contractor that was not qualified at a higher price.

CAUSE: The Chapter staff and officials did not seek advisement and guidance from Administrative Service Center or Department of Justice for contractual agreements in order to follow the established procurement policy for professional services.

RECOMMENDATION:

1. The Chapter officials and staff should ensure that the procurement of professional service goes through the bidding process.
2. The Chapter staff should verify that all professional service agreements have been reviewed and approved through the Navajo Nation review process.
3. The Chapter administration should seek the advice and guidance of the Administrative Service Center or Department of Justice when entering into contractual agreement.

CONCLUSION

The Chapter disbursed a total of \$456,295 from all funding sources during the period of our examination. A total of 164,533 (95%) of \$172,441 of the disbursements tested was not spent in accordance with the Chapter and Navajo Nation policies and procedures.

The Chapter Accounts Maintenance Specials paid \$144,496 for office supplies that the Chapter did not need.

The Chapter provided \$18,290 in housing assistance to housing recipients that did not submit all required documentation.

The budgets and expenditures were not accurately posted in the accounting system.

The temporary employees' wages and personnel files were not supported with required documentation.

Chapter paid vendors without approval and required documentation and entered into a contract without going through the bidding process.

AUDITEE RESPONSE



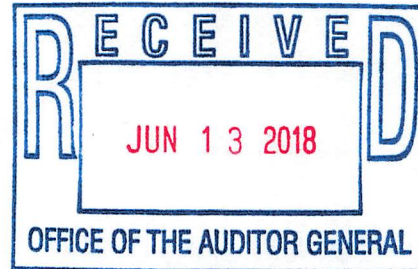
PUEBLO PINTADO CHAPTER

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Leonard Tsosie Council Delegate	Rena Murphy President	Erlene Henderson Vice President	Rhea Murphy-Willeto Secretary/Treasurer	Alex Sandoval Land board	Vacant Coordinator	Vacant Accounts Maintenance Specialist
Russell Begay, President						Jonathan Nez, Vice President

June 4, 2018

Navajo Nation Office of Auditor General
Elizabeth Begay, CIA.CFE
Auditor General



Dear Ms. Begay:

We are in receipt of your final draft of the "A Special Review" Findings of the Pueblo Pintado Chapter dated June 13, 2018. Pursuance to Title N.N.C §74A, we agree to the audit findings and will begin the process of Corrective Action Plan based on the recommendations made by your office within thirty (30) days.

If you should have any questions, please feel free to contact the Pueblo Pintado Chapter at (505)655-3221 or email at pueblopintado@navajochapters.org. Thank You.

Sincerely,

Rhea Murphy
Pueblo Pintado Chapter Secretary/Treasurer

CONCURRENCE:

Rena Murphy, Chapter President
Pueblo Pintado Chapter

Cc: Chapter Officials
ASC; Johnny Johnson, Department Manager
Donny Jones, Accountant