

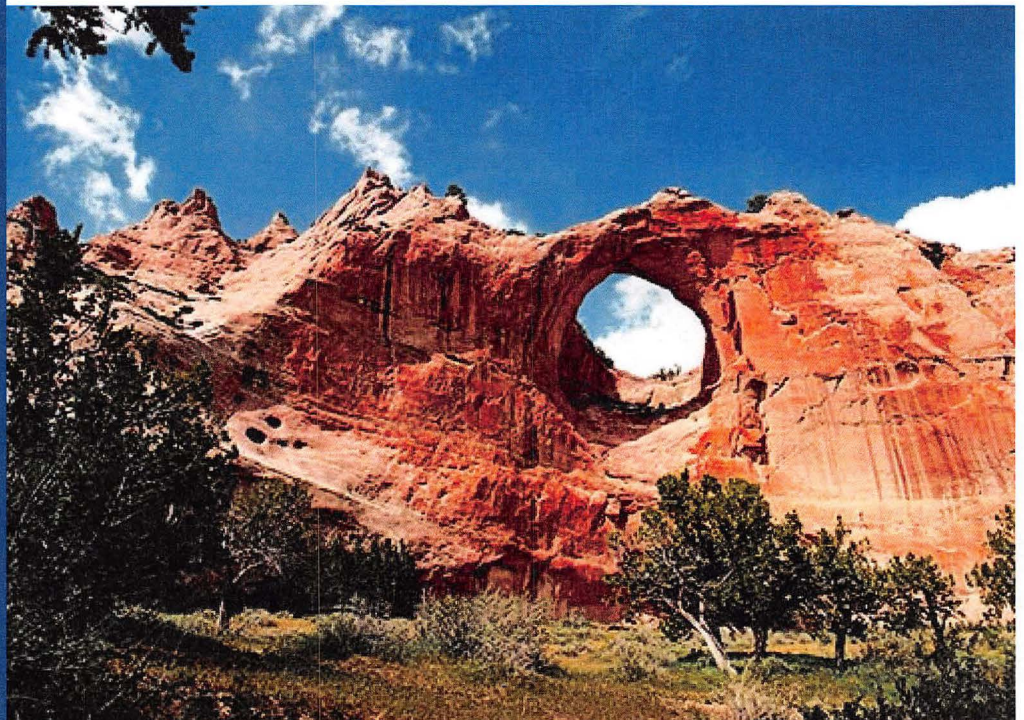
OFFICE OF THE AUDITOR GENERAL

The Navajo Nation

**Internal Audit
of
To'Hajiilee Navajo Chapter**

**Report No. 18-20
March 2018**

**Performed by:
Le Compte P.C.**



March 30, 2018

Mark Begay, President
TOHAJIILEE CHAPTER
PO Box 3398
Tohajiilee, New Mexico 87026

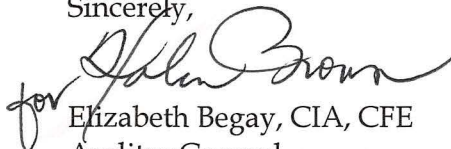
Dear Mr Begay:

The Office of the Auditor General herewith transmits Audit Report No. 18-20, Tohajiilee Chapter Internal Audit. The internal audit was conducted, in conjunction with Le Compte P.C., Certified Public Accountants, to determine whether the Tohajiilee Chapter properly used funds intended for services for its chapter community members and implemented adequate internal controls when conducting chapter business.

The auditors reported deficient or non-existent internal control procedures in a number of accounting processes critical to the operation of the chapter. The significant deficiencies resulted in 15 findings for the four year review period of October 1, 2012 to September 30, 2016. The audit report provides recommendations to correct the audit findings and improve chapter operations.

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

Sincerely,


for Elizabeth Begay, CIA, CFE
Auditor General

Enclosure

xc: Jacqueline Platero, Vice President
Jordan Etcitty, Secretary/Treasurer
Sherilynn Apache, Community Services Coordinator
Norman Begay, Council Delegate
TOHAJIILEE CHAPTER
Johnny Johnson, Department Manager II
ADMINISTRATIVE SERVICE CENTER/DCD
Chrono



LECOMPTE, P.C.

CPAs & Financial Consultants

March 26, 2018

Dear Ms. Begay,

Pursuant to our engagement letter with the Office of the Auditor General, Le Compte, P.C. hereby transmits the internal audit report of the Tohajiilee Chapter. This is not an LGA certified chapter, however the Chapter is required to follow the policies and procedures as outlined in the standard Five Management System Manual and applicable Navajo Nation laws and regulations in conducting chapter business pursuant to Title 26.

The scope of this internal audit covered the four year period from October 1, 2012 to September 30, 2016, and we have noted 15 findings as a result of this audit. These findings are elaborated in the enclosed report along with our recommendations for corrective action. Should there be any questions, please contact us at (505)994-3001.

Sincerely,

Craig A Le Compte, CPA

Rio Rancho, NM

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INTRODUCTION AND BACKGROUND

Le Compte, P.C. has conducted an internal audit of the Tohajiilee Chapter for the four year period ending September 30, 2016. This internal audit was requested by the Office of the Auditor General after selecting the Tohajiilee Chapter for an audit.

Tohajiilee 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 and the Local Governance Act (LGA). Per discussions with Chapter Officials and the new Chapter management, the Tohajiilee Chapter is not one of the certified chapters, however, they follow the policies and procedures as outlined in the standard Five Management Systems Manual in conducting Chapter business.

The majority of the Chapter's resources are provided by appropriations from the Navajo Nation government based in Window Rock, Arizona. These appropriations are intended to fund direct services and indirect services at the local chapter government. Funds for direct services are considered restricted funds with specific intended purposes.

OBJECTIVE, SCOPE AND METHODOLOGY

The objective of this audit was to test whether the Chapter properly used funds intended for services for its membership and whether the Chapter implemented adequate internal controls when conducting Chapter business.

In performing our tests, we interviewed Chapter Officials and the management team, reviewed 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. We also reviewed internal controls over Chapter property and equipment to determine whether it is adequately safeguarded against loss from eventualities such as theft, vandalism and fire.

GOVERNMENT AUDITING STANDARDS

We conducted this internal audit in accordance with government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient and appropriate evidence that provides a reasonable basis for our findings and conclusions based on our audit objectives. An audit also includes review of applicable internal controls and compliance with requirements of laws and regulations to the extent that it is considered necessary to satisfy the audit objectives. We believe our audit (and the evidence obtained therefrom) provides a reasonable basis for our findings and conclusions.

Le Compte, P.C., remains thankful to the Tohajiilee Chapter Officials and their management team, plus the Office of the Auditor General staff and leadership, for their cooperation and assistance throughout the audit.

FINDINGS AND RECOMMENDATIONS

Finding 1: Expenditures were made without approved annual budgets for the four fiscal year(s) ended 9/30/13, 9/30/14, 9/30/15, and 9/30/16.

Criteria: Section VI (A) of the Fiscal Section of the FMS Manual states that no expenditure of the Chapter funds shall be made without an approved annual budget.

Condition: Based upon our review of the Chapter minutes, there were no formal Chapter resolutions approving the budgets for the fiscal year(s) ended 9/30/13, 9/30/14, 9/30/15 and 9/30/16. Also, minutes pertaining to several monthly regular Chapter meetings for the years under audit were not made available for our review in a timely manner and this is discussed in a separate finding.

Cause: Recording of meeting minutes was inadequate and budgetary actions of the community at the Chapter meetings were not properly recorded. Also, the Chapter's filing system is in disarray and this is one of the primary reasons for the Chapter's inability to locate and produce records and supporting documents for the audit on a timely basis. Most of the records are being kept in boxes and have not been filed properly.

Effect: All Chapter funds expended during the four fiscal years covered by this audit should be considered unauthorized expenditures, totaling \$306,376.78, \$500,355.70, \$492,580.23 and \$193,165.76 for the fiscal year ended 9/30/13, 9/30/14, 9/30/15 and 9/30/16 respectively.

Recommendation: The Chapter's Secretary/Treasurer or their designee should properly record the actions and resolutions of the Chapter officials and membership during Chapter meetings to comply with FMS policies. Also, proper record keeping and filing procedures should be followed that allows the Chapter to create and file all Chapter meeting minutes and connected resolutions in the administrative office of the Chapter house for the purpose of maintaining a proper audit trail and reference.

Finding 2: (A) Expenditures were made without proper support documentation to justify the expense. (B) Purchases were made without obtaining proper quotes from three different vendors. (C) Chapter requisition forms, purchase orders and receiving reports were not prepared or attached to the supporting documentation.

A. Expenditures were made without proper support documentation to justify the expense.

Criteria: Section V.D.3 of the Fiscal section of the FMS Manual states that the Chapter's accounting records provide the necessary documentary support for all transactions and that account balances must be properly maintained to provide fiscal accountability for the Chapter. Such accounting records comprise of various source documents, journals, registers, ledgers and other supplementary records.

Condition: Adequate supporting documents were not provided for 445 out of 472 sample items selected for the four fiscal years under audit for disbursements /expenditure test work. In two instances, the receipts or invoices included the purchase of unidentified “gift cards” (one gift card was purchased to Home Depot for \$176.41 on 2/5/15 and the other was an Albertsons gift card for \$400.78 on 3/10/15), however, the Chapter could not substantiate what these gift card were purchased for.

Cause: Lack of diligence, knowledge and inadequate training on the part of the Chapter staff plus a disregard for accepted norms of accountability during the period covered by this audit.

Effect: Sample expenditure items totaling \$256,960.32 (out of a total sample value of \$313,752.91) that were selected for test work could be considered disallowed without adequate documentation.

Recommendation: Chapter management should take steps to attach the necessary source documentation to payment requests before processing payments and ensure that such documentation is properly filed for future reference and review.

B. A major purchase was made without obtaining proper quotes from three different vendors.

Criteria: Section IV (K-1) of the Procurement Section of the FMS states that on any purchase up to \$2,500.00, the Chapter management may verbally obtain vendor and purchase price information from at least three vendors. Such information should be documented and include details such as vendor name, price quotation, date and method of contact. Information gathered via online is considered valid for this purpose.

Condition: During the years under audit, the Chapter purchased a GMC truck with a value of \$43,807.00 that did not have documentation to substantiate any effort on the part of the Chapter to obtain the necessary quotations.

Cause: Lack of diligence, knowledge and inadequate training on the part of the Chapter staff.

Effect: The Chapter is not in compliance with the applicable provisions of the FMS as stated, plus there was the risk of not obtaining the best possible price on purchases, such as the purchase of the GMC truck as noted above.

Recommendation: Chapter management should adhere to the prescribed policies and procedures as stated and obtain the best possible price on all purchases, plus adequately document all the related steps pertaining to quotations.

C. Chapter requisition forms, purchase orders and receiving reports were not prepared or attached to the supporting documentation.

Criteria: Section VI (A)& (B) of the Procurement Section of the FMS Manual states that Chapter staff and officials may request goods and services by submitting the relevant requisition forms to Chapter management. Chapter management will, then, review such request for need and relevance and process the request by initiating a purchase order and securing other relevant documentations such as receiving reports and invoices.

Condition: 155 expenditure items out of a sample of 155 items for a total sample value of \$110,686.23 that were selected for test work for the four years under audit had missing Chapter requisition forms, purchase orders and receiving reports.

Cause: Lack of diligence, knowledge and inadequate training on the part of the Chapter staff.

Effect: Lack of adherence to established policies and procedures which has resulted in a breakdown of internal controls that are necessary to safeguard the interests of the Chapter when making procurement decisions and expending Chapter funds. The Chapter could not justify expenditures totaling \$ 110,686.23 as explained above. It is possible that the Chapter did not receive the underlying goods or services that were paid for or the best obtainable price was not secured for these transactions.

Recommendation: Chapter management should strictly follow the documentation requirements as prescribed by the FMS Manual to conduct Chapter business and expend Chapter funds.

Finding 3: The established checklists required for the Housing Discretionary Fund were missing for all 72 sample transactions selected for test work.

Criteria: Section V (D-3) of the Fiscal section of the FMS Manual states that the Chapter's accounting records provide the documentary support for all transactions and that account balances must be properly maintained to provide fiscal accountability for the Chapter. Navajo Nation Housing policies and procedures and the provisions of the LGA require the maintenance of proper supporting documentation in this regard.

Condition: 72 expenditure items out of a sample of 72 items with a total sample value of \$52,675.97 selected for test work from the Housing Discretionary fund for the four years under audit did not have the necessary Point System Ranking sheet before the assistance was provided to the beneficiaries. No documentation of follow up visits to the relevant work sites to document the delivery of assistance as intended was available for our review for any of the samples tested. Income verifications were not done to substantiate the provision of assistance, except in three instances.

Cause: Lack of diligence, knowledge and inadequate training on the part of the Chapter staff.

Effect: The Chapter expended Housing Discretionary funds totaling \$52,675.97 without completing all the required formalities and this could have resulted in the provision of assistance to those who did not meet the established criteria for such assistance.

Recommendation: Chapter management should work towards full compliance with the established documentation requirements that are specific to each fund including the Housing Discretionary Fund and implement an internal review process before expenditures are given final approval for payment.

Finding 4: Travel expenditure transactions did not have adequate support such as travel authorization, trip report, proof of insurance and driver licenses for those using personal vehicles.

Criteria: Section VII (I-2) and (I-10c) of the Fiscal Section of the FMS Manual stipulates that Chapter management should obtain the applicable supporting documentation for travel which includes travel authorizations, trip reports, proof of current insurance and driver licenses. Photo copies shall be obtained and kept on file.

Condition: 120 expenditure items out of a sample of 120 items with a total sample value of \$ 61,622.97 were selected for test work and none of the samples had a completed and approved travel authorization or a trip report to explain the purpose and accomplishments of the underlying trip(s). In most instances tested, the travelers were using their personal vehicles for transport but the current proof of insurance or a copy of their driver licenses were not on file as mandated by the FMS requirements.

Cause: Lack of diligence, knowledge and inadequate training on the part of Chapter staff.

Effect: The Chapter is not in compliance with the FMS requirements and is exposing itself to unnecessary risks by allowing travelers to use their personal vehicles for Chapter business without safeguarding its interests against potential accidents and litigation and paying \$61,622.97 to travelers without documentation to support such travel.

Recommendation: The Chapter management should ensure that travel expenditure files are complete with all required documentation such as completed and approved travel authorizations, trip reports, original copies of driver licenses and proof of insurance when applicable.

Finding 5. (A) Capital assets inventory and inventory of other items have not been taken since 2016. Additionally, there is no current insurance coverage for the Chapter with the Navajo Nation's Risk Management program for these assets. (B) Lack of controls over safeguarding of Chapter's Property and Equipment items.

A. Capital assets inventory and inventory of other items have not been taken since 2016. Additionally, there is no current insurance coverage for the Chapter with the Navajo Nation's Risk Management program for these assets.

Criteria: Section VII (F 1&2) of the Fiscal Section and Sections VII, VIII and XII of the Property Management Policies and Procedures Section of the FMS Manual state that all capital assets shall be accounted for, inventoried and identified by fund source and that the Chapter should carry adequate insurance coverage for such assets.

Condition: The Chapter's last inventory of its capital assets and other items of value were taken in 2016 and no inventory has since been taken. The Chapter has not filed any of the required inventory reports (Underwriting Exposure Summary) to the Navajo Nation Risk Management programs since 2016 and consequently, there is currently no insurance coverage for any of the Chapter's capital assets or other liabilities of any kind. Capital assets have not been recorded into the Chapter's accounting records as of March 31, 2017.

Cause: Lack of diligence, planning and inadequate training on the part of the Chapter staff. A disregard for applicable policies and procedures and accountability also are major reasons for these deficiencies.

Effect: The Chapter runs the risk of loss of assets due to theft and accidents and other financial damages from eventualities such as third-party claims for torts and other reasons due to lack of insurance.

Recommendation: The Chapter management should take the necessary steps to file the required reports with the Navajo Nation's Risk Management program and secure full insurance coverage as soon as possible. Once the inventory process is complete, the Chapter should record its capital assets into its books and classify them by fund sources as required by the FMS Manual.

B. Lack of controls over safeguarding of Chapter's Property and Equipment items.

Criteria: Section VII, VIII and X of the FMS Property Management Policies and Procedures require the Chapter to implement the necessary internal controls to protect its property and equipment items at all times and keep them accounted for at the Chapter premises.

Condition: One GMC Truck (with VIN # 1GT22YEG3FZ541412) which was acquired with Chapter funds for an amount of \$43,807.00 in October 2015 has not been registered with the New Mexico Division of Motor Vehicle and no license plate has been obtained for this vehicle until now. There was a temporary license plate assigned to this vehicle(15T-365105) at the time of purchase which expired on 12/31/2015 and no effort has been made by the Chapter to register and obtain a permanent license plate for the vehicle. Currently, it remains parked at a community member's residence and is being kept idle. The mileage odometer reading for the vehicle currently stands at 2,527 miles and the Chapter is

planning to bring it back to the Chapter premises shortly for the purpose of tagging and including it in their inventory schedule.

Cause: Lack of diligence and disregard for policies and procedures on the part of the Chapter staff.

Effect: A significant and high value item costing \$43,807.00 has been purchased without regard to the applicable policies and procedures and it has been allowed to remain idle without any benefit to the Chapter until now. Since this truck has not been registered and included in the Chapter's inventory, the risk of theft and loss of property is a serious possibility.

Recommendation: The Chapter should take steps to register the truck with the New Mexico Division of Motor Vehicle and obtain the necessary insurance from Navajo Nation's Risk Management. The truck should also be tagged and included in the Chapter's inventory listing and accounting records.

Finding 6: Use of Chapter property (Rodeo Ground) without approval or compensation.

Criteria: Section VII, VIII X and XII of the FMS Property Management Policies and Procedures requires the Chapter management to take adequate steps to safeguard Chapter premises and property from eventualities such as unauthorized use, theft, vandalism and fire.

Condition: The Rodeo grounds located on the North Tribal road (Main access road) and behind the Canoncito Health Clinic is under the control and management of the Chapter but several community events such as bull riding and other Indian rodeo events are being conducted in these grounds on a periodic basis without obtaining permission from Chapter management. It is also not clear if the organizers of these events hold proper liability insurance to cover themselves and the Chapter against the inherent risks associated with the conduct of events of this nature.

Cause: Lack of strict enforcement of rules and regulations on the part of the Chapter management and the Officials.

Effect: Loss of revenue to the Chapter due to free use of rodeo grounds and exposure to risks and liability claims arising from possible lack of the necessary insurance coverage on the part of the event managers.

Recommendation: Chapter management and the Officials should educate the community about adherence to established policies and procedures for use of Chapter facilities and strictly enforce compliance therewith.

Finding 7: (A) The old Chapter building stands abandoned and is in need of restoration and renovation. (B) The new Chapter building is in need of improvements and better maintenance.

A. The old Chapter building stands abandoned and is in need of restoration and renovation.

Criteria: Section VII, VIII, X and XII of the FMS Property Management Policies and Procedures requires the Chapter management to take adequate steps to safeguard Chapter premises and property from eventualities such as theft, vandalism and fire.

Condition: Until 2005, the Tohajiilee Chapter was located at and operating out of its old building at 7210 North Tribal Road, Tohajiilee, NM 87026 and this building was abandoned due to various issues of safety and structural deficiencies raised against it at that time. Since its abandonment in 2005, there has been no significant effort on the part of the Chapter management or officials to renovate this building for reoccupation and resumption of Chapter business and overall community participation at this location. The old and abandoned building has identity tag numbers as 7210, C003-015 and 722B as noted during our inspection of this site as a part of our audit process. It is not clear if this building could be renovated or would need to be rebuilt to suit the revised and contemporary standards of accommodation and residency as the new Chapter house.

Cause: Lack of vision and leadership on the part of Chapter management and officials to plan for the necessary renovation and secure the required funding.

Effect: The building in question stands abandoned without any use or benefit to the Chapter and the community at large.

Recommendation: Chapter management and officials should evaluate their options in this regard and draw up plans for renovation or rebuilding as necessary and implement such plans after due consultations with the appropriate Navajo Nation authorities in Window Rock, AZ.

B. The new Chapter building is in need of improvements and better maintenance.

Criteria: Same criteria as stated above.

Condition: As described in the prior Finding 7(A), the Tohajiilee Chapter abandoned its previous location in 2005 and moved to its current location at 117 Desiderio Center, Tribal Road N-7071 in the same year and has been doing business from this location since then. This current building and location is shared with other agencies such as the Canoncito Band of Navajos Health Clinic, Inc, and Navajo Nation Division of Social Services. Based upon the input obtained from the current Chapter management, this building is in need of structural evaluation and improvement due to problems associated with gradual sinking, cracks and other structural weaknesses. There is no Fire Evacuation plan and there are no

fire extinguishers or fire alarms, plus there are problems associated with rodents and insects.

Cause: Lack of attention and seriousness on the part of the Chapter management and officials to take appropriate preventive measures, plus lack of funding to implement solutions.

Effect: Deteriorating structural conditions of the building could lead to sudden and unexpected difficulties in the future. Lack of fire alarms, fire extinguishers and fire evacuation plans could result in serious damages and injuries to property and people without notice.

Recommendation: Chapter management and officials should consult with the appropriate Navajo Nation programs and officials in Window Rock, AZ and formulate solutions accordingly. Funding is a necessary component of any solution and should be requested through a legislation to be sponsored by the Chapter's Council Delegate.

Finding 8: Non-payment of Workmen compensation dues to the Navajo Nation Workmen Compensation Insurance Program for the past several years.

Criteria: In accordance with the Chapter's PEP policies and procedures, PEP workers are eligible for Navajo Nation Workers' Compensation coverage during the term of their temporary employment, and thus, the Chapter is obligated to make such payments to the Navajo Nation Workers' Compensation Insurance Program on a quarterly basis.

Condition: Based upon our review and related discussions with the Navajo Nation officials in this regard, we found that the Chapter has not submitted its quarterly reports for FY 2015, FY 2016 and the first two quarters of FY 2017. A projected quarterly report was submitted to the Navajo Nation Workmen Compensation Program for the third quarter of FY 2017 on April 4, 2017 by the Chapter but no workmen compensation dues (premiums) have been paid to the Navajo Nation. The Chapter is delinquent in filing the relevant quarterly reports for the past few years and making payments on a timely basis.

Cause: Lack of planning and attention on the part of the Chapter staff and lack of oversight from the Chapter officials.

Effect: The Chapter remains open and vulnerable to liability litigations and damages connected to on-the-job injuries, if any, suffered by their temporary workers. This is a serious risk that can be mitigated by submitting the quarterly reports and making payments to the Navajo Nation agency on a timely basis.

Recommendation: Chapter management should file the required reports to the Navajo Nation Workers' Compensation Program and make the necessary payments that will reinstate the coverage and protect the interests of the Chapter and its employees.

Finding 9: Quarterly Federal payroll reporting was not filed timely and the monthly Federal tax deposits were not made timely.

Criteria: Section VII(H-2j) of the Fiscal Section of the FMS Manual states that Chapter management shall ensure that timely deposits are made against the quarterly payroll tax liabilities to avoid penalties. Form 941 shall be filed with the Internal Revenue Service on a quarterly basis according to due dates set by the IRS. (Internal Revenue Service, Publication 15, Circular E, Employer's Tax Guide).

Condition: (a) During the two years period from 10/1/14 to 9/30/16, 941s were not filed on a timely basis for at least 6 out of the 8 quarters. The 941s for these 6 quarters were filed on May 19, 2017 and two payments in the amounts of \$192.83 and \$1,183.60 for the fourth quarter of 2014 and the first quarter of 2016 respectively were made on 5/22/17.

The Chapter has received several reminder notices from the IRS for overdue taxes against their account. For instance, one overdue notice was dated October 31, 2016 which stated that delinquent taxes in the amount of \$1,099.04 had to be paid for the year ended December 31, 2007.

Cause: Lack of planning and methodical effort on the part of the Chapter staff plus the lack of adequate and qualified staff at the Chapter for prolonged periods of time.

Effect: The Chapter is not in compliance with the 941 filing requirements and payment of payroll taxes on a timely basis. The underlying tax liability could not be estimated due to the absence of relevant data at the Chapter.

Recommendation: Chapter management should file timely reports to the IRS and make timely and accurate payments against them in order to avoid penalties and interest or other sanctions from the IRS.

Finding 10: Chapter membership does not receive monthly financial reporting and several regular Chapter meeting minutes were not available for audit review in a timely manner.

Criteria: Section 1001 (B) (i), Financial Reporting of the LGA requires the Secretary/Treasurer to report the financial position of the Chapter at duly called monthly chapter meetings. Also, the Secretary/Treasurer is required to document and create the necessary meeting minutes for all chapter meetings without exception and keep them on file at the administrative office of the Chapter house.

Condition: Review of available meeting minutes indicated that financial reports were not presented to the Chapter membership for the meetings conducted during FY 2013 through the end of FY 2016, even though there were discussions regarding various financial issues connected to the Chapter at these meetings. Also, the meeting minutes pertaining to September 2015, December 2015, January 2016 and August 2016 to May 2017 were not available for our review. Meeting minutes were not kept filed at the Chapter house in an

organized manner and the new Chapter management had to search for them for several hours before they could be located.

Cause: Lack of discipline and disregard for applicable requirements has contributed to inconsistent practice of monthly financial reporting. The filing system at the Chapter is not organized and is in need of improvement.

Effect: Chapter membership has not received the necessary input from the Chapter management and leadership on key financial activities of the Chapter which is not conducive to promoting public trust and fiduciary responsibility between the various stakeholders. Also, the practice of not keeping meeting minutes and resolutions filed at the Chapter house in an organized manner could result in loss of documents and audit trail over time.

Recommendation: Chapter officials and Chapter management should work together to prepare and present the necessary financial reports at each meeting. Also, they should ensure that detailed meeting minutes and the related resolutions are generated for all meetings as applicable and kept on file in the administrative office at the Chapter house.

Finding 11: Inadequate filing system that requires organization, effort and timely action.

Criteria: Section V (D) (4) of the Fiscal Section and various sections of the Records Management Policies and Procedures of the FMS Manual require the Chapter to maintain an adequate filing system to organize and store all the supporting documents in filing cabinets to be kept at the Chapter house for the purpose of reference, record and audit trail.

Condition: The Chapter's filing system has been in disarray for over a year or longer which has placed the current Chapter management at a disadvantage by requiring them to spend substantial amount of time and effort to organize and restore the filing system to an acceptable level and status. This effort is only in its beginning phase and could take several more months to complete and achieve the desired results. This is one of the main reasons behind the fact that the Chapter was unable to locate support documentation for a substantial portion of the sample items selected for test work as noted in the various findings as noted in the earlier sections of this report. Currently, most of the Chapter records are kept in boxes and over time, the Chapter is planning to organize them into folders and files and create an acceptable filing system.

Cause: The Chapter has been operating without adequate management staff for extended periods of time and this has left a clear void in the management of the Chapter and its functions. The Chapter has been operating without an AMS (Accounts Maintenance Specialist) at least since October 2016 and a CSC (Community Services Coordinator) since August 2017.

Effect: The Chapter has an incomplete and very disorganized filing system that is currently undergoing restoration. Audit trail and supporting documentation for a large amount of transactions related to the years under audit could be missing or may have been misfiled.

Recommendation: Current Chapter management should intensify its efforts to rebuild and restore the filing system and bring it up to par, plus do whatever is necessary to retrieve the missing documentation after their current efforts reach a point of completion.

Finding 12: Bank reconciliations for the years under audit have not been located.

Criteria: As per Section VII (C) of the Fiscal Section of the FMS Manual, all bank reconciliations should be done and reviewed properly and be maintained as an audit trail for the purpose of accountability and record.

Condition: The Chapter has not been able to locate any of the bank reconciliations for the four years under audit. The current Chapter management produced a copy of the bank reconciliation for April 2017 and our review of the same disclosed that there was no formal review and approval process at the Chapter and thus, no such review or approval was performed.

Cause: As noted in prior Finding #11, the Chapter's filing system is in disarray and is undergoing restoration. Thus, these reconciliations may be missing or misfiled. Lack of knowledge and training on the part of the chapter management is the reason for the absence of the review process.

Effect: Audit trail has not been kept properly and accountability is lacking.

Recommendation: Current management should strengthen their efforts to locate the missing bank reconciliations and implement a supervisory review process on those bank reconciliations that are done in the future.

Finding 13: Lack of a stable AMS and a CSC has weakened the operations and accountability at the Chapter.

Criteria: A strong and stable management team is key to the productive and smooth conduct of Chapter business and serving the Chapter membership which currently stands close to 3,200. Temporary workers and volunteers cannot be substitutes for permanent employees such as CSC and AMS, owing to the fact that such temporary workers would have less at stake compared to their permanent counter-parts.

Condition: Based upon our inquiries and understanding of the Chapter's operations, the Chapter's AMS was on extended leave of absence since October 2016 and thus, no one has been discharging the role and functions of this position since then. In September 2017, the AMS position became vacant due to resignation, after a period of long leave of absence, and the Chapter is currently engaged in the process of recruiting a new AMS. A new CSC

was in charge for a few months from March to August 2017 and since her departure, the Chapter has been operating without a CSC or AMS. The elected Chapter Officials have been saddled with all the duties and responsibilities of discharging and managing the various functions of the Chapter. This state of affairs has created a severe setback in the smooth conduct of the Chapter business and its various functions including record keeping, filing, accounting and all other areas.

Cause: The extended leave status of the current AMS has left the Chapter without the services of an AMS for all practical purposes since October 2016. Also, there is no CSC at the Chapter since the end of August 2017. The current Chapter Officials have been on board since the beginning of 2017 and have not been able to press their case effectively with their counterparts in Window Rock and seek an early resolution.

Effect: The Chapter lacks the services of an AMS since October 2016 and a CSC since August 2017 and as a result, accountability, record keeping, filing and other functions have suffered considerably.

Recommendation: Members of the new management team and the newly elected officials should work with the appropriate Navajo Nation Officials to seek an early resolution of this matter and restore the services of the AMS and CSC positions without further delay. As noted earlier, the Chapter is currently taking steps to recruit a new AMS and a new CSC and this process should be completed as soon as possible.

Finding 14: Name of the Chapter's main bank checking account has been changed in January 2017 without proper authorization.

Criteria: Sound accounting and management practices require that the names of bank accounts be kept in the name of the entities that they represent and belong to so as to avoid confusion and uphold the principles of accountability and transparency.

Condition: The Chapter's main checking account that is maintained with Bank of the West was kept in the name of the Tohajiilee Chapter until December 2016 and since January 2017, this name has been removed and a new name that reads "Canoncito Band of Navajos" has been substituted to take its place. The purpose behind this name transfer is not known and no Chapter resolution to this effect has been produced for our review.

Cause: The purpose and motive behind this action is not clear.

Effect: The present name on the bank account (Canoncito Band of Navajos) does not match with the legal name of the entity which continues to remain as "Tohajiilee Chapter" and it is not a valid or healthy business practice to allow the bank account name(s) to be at variance with the legal and registered name(s) of the entity. This has created confusion as to whether the bank account belongs to the Tohajiilee Chapter or the Canoncito Band of Navajos.

Recommendation: Chapter Officials and management should examine this name transfer and its validity and seek to restore status quo ante as soon as possible.

Finding 15: Lack of accountability over miscellaneous revenue collections for the four years under audit.

Criteria: Section VII.A. 1 and 2 of the FMS Fiscal Policies and Procedures Manual requires the chapter to establish and implement internal control policies and procedures over cash collections, deposits and accounting in order to ensure that the chapter's resources are protected against waste, fraud, and inefficiency.

Condition: Based upon our inquiries with the Chapter's current management team and review of the accounting records, we found that proper accounting for miscellaneous revenue collections were absent for the four years under audit. There were no receipt books and no receipts were issued for collection of miscellaneous revenues, albeit such collections appeared to be infrequent and small in terms of dollar amounts. Tohajiilee Chapter does not have shower facilities as most of their counterparts do and thus, miscellaneous revenue collections, if any, should have been limited to trash collection fee for community trash removals done on a weekly basis. Such collections could be estimated to be around \$1,000.00 per year. In addition to this, the Chapter owns rodeo grounds where events have been conducted periodically but it is not clear if any fee was charged and collected for using this facility. The Chapter did not have any fee schedule connected to the use of this facility during the years under audit and there were no rules and regulations to enforce collection of such fees, if any, for rodeo events. The current management is making efforts to review these practices and establish clear rules and regulations to enforce accountability over such revenues and collections therefrom. The required and customary practice of issuing pre-numbered receipts for miscellaneous revenue collections such as trash collection fees and rodeo events fee is also being considered for implementation.

Our review of the Chapter's accounting records for the four years under audit disclosed that miscellaneous revenue collections amounted to \$2,268.65, \$ 2,404.62, and \$ 1,440.30 for FY 13, FY 14, and FY 15 respectively. No miscellaneous revenues have been recorded in the books for FY 16 and the current Chapter Officials did not have any explanation to offer in this regard. This could also be due to instances of accounting misclassification in their accounting records.

Cause: Lack of diligence and understanding on the part of Chapter staff with regard to their duties and responsibilities as stipulated by the FMS manual. Inadequate training and long period of absences of qualified staff at the Chapter is also another reason for this state of affairs.

Effect: Lack of adherence to established policies and procedures resulted in inadequate accounting and documentation of miscellaneous revenue collections at the Chapter during the four years under audit as explained in the earlier sections. In the absence of proper

records and inadequate accounting practices, it is difficult to estimate the loss of miscellaneous revenue for the Chapter during the four years covered by this audit.

Recommendation: The current management should focus its efforts on proper training that helps them to understand the requirements and related responsibilities under the FMS manual as cited and then, initiate and implement steps to achieve full compliance as required.

CONCLUSION

Each year, the Tohajiilee Chapter receives annual appropriations to fund direct and indirect services to its local community members. To ensure that these services are provided in a timely and effective manner, the Chapter is required to administer the funds in accordance with established guidelines, policies and procedures. In addition, an adequate internal control structure ensures that the Chapter is meeting its objectives in providing these services to the local Chapter community.

Our review of the Tohajiilee Chapter expenditures and operations has disclosed various deficiencies in providing direct services to its membership and these deficiencies have been elaborated in the findings section along with our recommendations. As explained in the findings section, internal control procedures have been deficient or non-existent in a number of accounting processes critical to the operations of the Chapter. In the absence of an AMS and a CSC since at least October 2016 and August 2017 respectively, the Chapter has been left to depend upon their elected Chapter Officials to conduct Chapter business which directly contributed to most of the inadequacies as listed in the findings section. The Chapter is currently engaged in the process of recruiting a new CSC and an AMS and once this new management team is in place, the Chapter could look forward to making progress in all areas of its operations and work towards correcting the various deficiencies as noted, even though it will prove to be a challenging and time-consuming process.

CHAPTER'S RESPONSE

TO'HAJIILEE NAVAJO CHAPTER

Canoncito Band of Navajos

PO Box 3398 To'Hajiilee, New Mexico 87026
Phone: (505) 908-2732/2730 Fax: (505) 908-2731

Mark Begay, President
Jacqueline Platero, Vice-President
Jordan Etcitty, Secretary/Treasurer
Evangeline Willie, Land Board
Norman Begay, Council Delegate
Sherrilyn Apache, Community Service Coordinator
Blair Platero, Accounts Maintenance Specialist

March 23, 2018

The Navajo Nation Office of the Auditor General
C/O Elizabeth O. Begay, CIA, CFE
P.O. Box 708, Window Rock, Arizona 86515

Dear Ms. Begay:

Attached is our response to the Internal Exit Audit meeting of To'Hajiilee Navajo Chapter.

We appreciate your time and consideration in this matter. If you have any questions, please call the Chapter at (505) 908-2732

Sincerely,



Mark Begay, President
To'Hajiilee Navajo Chapter

To'Hajiilee Navajo Chapter

Corrective Action Plan for the four fiscal year(s) 10/1/2012 to 09/30/2016

Finding 1: Expenditures were made without approved annual budgets for the four fiscal year(s) ended 9/30/13, 9/30/14, 9/30/15, and 9/30/16.

Response: We are in the process of addressing the findings and resolving it for the current fiscal year of 2018 (10/1/17 to 9/30/18). We (the new Chapter Administration, Sherrilyn Apache (Community Services Coordinator) and Blaire Platero (Account Maintenance Specialist)) will make sure the chapter budgets are approved by chapter officials in the duly called chapter meetings from this point on moving forward. The newly elected chapter officials, Mark Begay (President), Jacqueline Platero (Vice-President), and Jordan Etcitty (Secretary/Treasurer) are committed to approving Chapter budgets through the Chapter community in the form of a proper resolutions.

Finding 2: (A) Expenditures were made without proper support documentation to justify the expense. (B) Purchases were made without obtaining proper quotes from three different vendors. (C) Chapter requisition forms, purchase orders and receiving reports were not prepared or attached to the supporting documentation.

Response: Based upon our understanding as Community Services Coordinator and Account Maintenance Specialist of the past record keeping deficiencies at the chapter, it is likely that proper procedures were not followed plus records were lost due to misfiling, etc. However, the guidance and leadership of new chapter officials we (the CSC and AMS) are committed to implementation of the Five Management System without exceptions. We (the CSC and AMS) are currently undergoing the process of reconstruction of the Chapter Navajo Nation FMS and we expect to have good control of this within the next 90 days.

Finding 3: The established checklists required for the Housing Discretionary Fund were missing for all 72 sample transactions selected for test work.

Response: As explained in the response of finding 2, it is likely that the point system ranking sheets were not filled out as required by the FMS manual. We (the CSC and AMS) are taking training to orientate ourselves to these requirements and make sure that point ranking system sheets are filled out for future Housing Discretionary Assistance.

Finding 4: Travel expenditures transactions did not have adequate support such as travel authorization, trip report, proof of insurance and drivers licenses for those using personal vehicles.

Response: As explained in previous sections it is likely that Travel Authorization, trip report, and related approvals were not obtained in the past. However, we are committed to filling out TA's, trip report, and obtaining proof of insurance, and driver's license for those using personal vehicles. As required by the FMS we are also engaging of process of obtaining Navajo Nation permits as necessary, CSC already has her Navajo Nation permit and AMS is engaging of process of obtaining in the next 90 days.

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Finding 5: (A) Capital assets inventory and inventory of other items have not been taken since 2016. Additionally, there is no current insurance coverage for the Chapter with the Navajo Nation's Risk Management program for these assets. (B) Lack of controls over safeguarding of Chapter's Property and Equipment items.

Response: Based on our understanding, capital assets inventory taking and obtaining insurance coverage for the chapter with Navajo Nation Risk Management program is delinquent. We (CSC and AMS) are engaging in the process of updating and reconstructing inventory list and will obtain Navajo Nation Risk Management coverage and property items within the next 90 days.

Finding 6: Use of Chapter property (Rodeo Ground) within approval or compensation.

Response: It is likely that Rodeo grounds may have been used without compensation and adequate insurance for the usage of facility. The new Chapter Officials and new Chapter Administration (CSC and AMS) are engaging in the process of implementing property rules and regulation for the usage of facilities, this is done through discussion in chapter meetings and notification to the community in this regard. We are also using receipts book and depositing such monies into bank within a week's time.

Finding 7: (A) The old Chapter building stands abandoned and is in need of restoration and renovation. (B) The new Chapter building is in need of improvements and better maintenance.

Response: It is true that these buildings are in need of major repair renovation. We are discussing the details of such reconstruction with chapter community and our Council Delegate, based upon their input and guidance we will work with Navajo Nation officials in Window Rock to find the cost effective solution to this problem and it could take one year.

Finding 8: Non-payment of Workmen compensation dues to the Navajo Nation Workmen Compensation Insurance Program for the past several years.

Response: It is true that worker's compensation coverage reports were delinquent during the four audit years. However, we in the process of filing these reports on a timely basis. So we will be current within the next few months.

Finding 9: Quarterly Federal payroll reporting was not filed timely and the monthly Federal tax deposits were not made timely.

Response: As stated in the response to previous findings filing of 941 forms were delinquent. However, the new Chapter Officials and new Chapter Administration are working to correct this problem. For the new AMS has filed the 941 forms for the last 2 quarters, even though there somewhat late. We are committed to timely filing of all tax reports going forward.

Finding 10: Chapter membership does not receive monthly financial reporting and several regular Chapter meeting minutes were not available for audit review in a timely manner.

Response: It is true that monthly reports were not provided to the Chapter Community and several Chapter minutes could not be located due to misfiling. However, the new Chapter

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Secretary/Treasurer is providing financial dates to the Chapter members during the past few meetings and all chapter minutes for the current fiscal year are being filed in proper binders.

Finding 11: Inadequate filing system that requires organization, effort and timely action.

Response: It is true that the chapter has been really deficient in maintaining a good filing system as required by FMS manual. However, the new Chapter Officials and new Chapter Administration (CSC and AMS) are totally committed to the notifications of this deficiency. The filing system for the current fiscal year is in much better shape compare to prior years.

Finding 12: Bank reconciliation for the year under audit have not been located.

Response: This finding is directly related to the record keeping and filing deficiencies, it is likely that some old bank reconciliations were lost due to misfiling for the current fiscal year. The new chapter management is performing bank reconciliation on monthly basis for all reconciliation. We are also paying within a separate folder for all bank reconciliations. Our new chapter Secretary/Treasurer reviews these files on regular basis and sign off as necessary.

Finding 13: Lack of stable AMS and a CSC had weakened the operation and accountability at the Chapter.

Response: It is true that chapter had problems with stability in its management team. However this issue has been resolved as of now the new AMS and CSC are in charge as of the December 11, 2017 and have completed their 90 day probation. They are both qualified to correct the findings and reconstruction chapter records and accountability.

Finding 14: Name of the Chapter's main bank checking account has been changed in January 2017 without proper authorization.

Response: This has been corrected since the audit the recent bank statements read as follows Canoncito Band of Navajos along with To'Hajiilee Navajo Chapter, due to recent understanding and to avoid further confusion as to whether the bank account belongs to the Canoncito Band of Navajos or To'Hajiilee Navajo Chapter we shall complete the process of removing the Canoncito Band of Navajos for the account.

Finding 15: Lack of accountability over miscellaneous revenue collections for the four years under audit.

Response: It is true that accountability over miscellaneous revenue collection has been lacking in the past. Since the end of audit the Chapter has implanted a receipt book system and all collections are supported printed receipts. All deposits are made on weekly basis we will continue to improve accountability in miscellaneous revenue moving forward.

Conclusion:

The newly elected Chapter Officials and current Chapter Administration (CSC and AMS) want to thank the Auditor General and Consultants for providing the Internal Audit Report while we

To'Hajiilee Navajo Chapter

acknowledge the deficiencies as noted we want to assure that we are doing all we can do to correct the mistakes so that the chapter will be ready for the following audit within one year.