

OFFICE OF THE AUDITOR GENERAL

The Navajo Nation

A Special Review of the Nahodishgish Chapter

Report No. 19-06
December 2018

Performed by:
Karen Briscoe, Principal Auditor
Myrtis Begaye, Associate Auditor





December 26, 2018

Etta M. Morgan, President
NAHODISHGISH CHAPTER
P.O. Box 369
Crownpoint, NM 87313

Dear Ms. Morgan:

The Office of the Auditor General herewith transmits Audit Report No. 19-06, A Special Review of the Nahodishgish Chapter to verify the Chapter funds were spent to provide services to community members in accordance with Navajo Nation and Chapter policies and procedures. During the period of examination - October 1, 2016 to March 31, 2018 - \$404,996 was disbursed. Our review revealed the Chapter has not implemented appropriate controls and compliance with laws. Listed below are the issues identified:

Finding I: Consulting services totaling \$ 44,058 were obtained without a service contract.

Finding II: The Chapter did not timely verify if building materials awarded to recipients were used for their approved purposes.

Finding III: There is no segregation of duties in the management of the accounting system to detect errors or unauthorized activity.

Detailed explanation on all audit issues can be found in the body of the report. The audit report provides recommendations for remediation of the reported findings.

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

Sincerely,

Elizabeth Begay, CIA, CFE
Auditor General

xc: Roger Morgan Jr., Vice President
Sylvia Morgan, Secretary/Treasurer
Jonathan Perry, Council Delegate
NAHODISHGISH CHAPTER
Johnny Johnson, Department Manager II
Sharon Jackson, Senior Programs & Projects Specialist
ADMINISTRATIVE SERVICE CENTER/DCD
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INTRODUCTION AND BACKGROUND

The Office of the Auditor General conducted a Special Review of the Nahodishgish Chapter for the 18-month period ending March 31, 2018 pursuant to the authority vested in the Office of the Auditor General by 12 N.N.C., Chapter 1, § 1 - 10. The special review was conducted to verify if Chapter funds were spent in accordance with Navajo Nation and Chapter policies.

The Nahodishgish 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 generates internal revenues from fees collected for providing miscellaneous services.

Table 1 shows the Chapter's total resources available for the 18-month audit period ending March 31, 2018. Any unexpended funds are carried over into the next fiscal year.

Table 1
Budget and Actual Expenditure for Total Resources
18-month audit period October 1, 2016 through March 31, 2018

Fund Name	Budget	Expenditures	Available
Chapter Activities	\$ 5,884.31	\$ 5,233.72	\$ 650.59
Local Governance Act Fund	\$ 52,408.30	\$ 44,375.60	\$ 8,032.70
Land Claims Trust Fund	\$ 32,956.03	\$ 29,806.99	\$ 3,149.04
Grazing Official Fund	\$ 522.09	\$ 522.09	-
Summer Youth Fund	\$ 45,975.75	\$ 38,254.82	\$ 7,720.93
Housing Discretionary Fund	\$ 27,761.10	\$ 22,993.93	\$ 4,767.17
Chapter Stipend Fund	\$ 89,201.64	\$ 57,756.05	\$ 31,445.59
Scholarship Fund	\$ 24,580.27	\$ 21,999.12	\$ 2,581.15
Public Employment Fund	\$ 70,442.58	\$ 50,938.29	\$ 19,504.29
Veterans Fund	\$ 1,471.20	\$ 674.52	\$ 796.68
Emergency Fund	\$ 75,341.55	\$ 58,361.68	\$ 16,979.87
Sales Tax Fund	\$ 27,947.40	\$ 27,910.71	\$ 36.69
Capital Project Fund	\$ 462,651.62	\$ 44,095.86	\$ 418,555.76
Unhealthy Food Tax Fund	\$ 2,643.00	\$ 2,072.32	\$ 570.68
Total:	\$ 919,786.84	\$ 404,995.70	\$ 514,791.14

Source: The Office of the Auditor General compilation of all appropriations and revenues, expenditures and fund balances.

Of the \$919,787 total available resources, \$404,996 was spent during the 18-month period.

Objective, Scope, and Methodology

The following objectives were established for this audit:

1. Determine if the Chapter executed a contract that was approved through the Navajo Nation review process in procuring consulting services.
2. Determine if the Chapter verified that building materials were used for their approved purpose.
3. Determine if there is sufficient segregation of duties in the management of the accounting system.

The audit covers activities for the 18-month period of October 1, 2016 through March 31, 2018.

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

REVIEW RESULTS

FINDING I: CONSULTING SERVICES TOTALING \$44,058 WERE OBTAINED WITHOUT A SERVICE CONTRACT.

CRITERIA: The Navajo Nation Procurement Rules and Regulations, Section V.D. requires a contract to document the services procured. The contract is required to be reviewed and approved through the Navajo Nation review process.

CONDITION: For the 18-month audit period, the Chapter obtained consulting services from six vendors at a cost of \$44,058. Five of the six vendors did not have an established contract. One of the six had a contract on file, but the contract was not reviewed by the Navajo Nation.

EFFECT: The Chapter could incur additional cost, resources and delays if issues arise with the services provided by the vendor.

CAUSE: The Community Services Coordinator did not know that all services required a contract and review by the Navajo Nation. She thought that only services costing over \$50,000 had to meet these requirements. She did not contact the Administrative Service Center or the Department of Justice to identify the proper procedures.

RECOMMENDATION:

1. The Community Services Coordinator should ensure that all consulting services are documented through a contract that is reviewed by the Navajo Nation.
2. The Community Services Coordinator should ensure that there is a signed contract in place for all services before any work commences.

FINDING II: THE CHAPTER DID NOT TIMELY VERIFY IF BUILDING MATERIALS AWARDED TO RECIPIENTS WERE USED FOR THEIR APPROVED PURPOSES.

CRITERIA: The Housing Policies and Procedures, Section VI and IX, states that the Chapter Administration shall maintain accurate and updated records of all housing projects and has oversight responsibility over the activities involving housing funds.

CONDITION: It took the Chapter anywhere from two months to 17 months to follow-up with housing assistance recipients to determine if building materials were used for their approved purpose. The Chapter did not detect that 10 of 25 recipients had not used their building materials because of reasons that include bad weather, no available labor, or the recipient needed additional materials in order to use the materials they received from the Chapter. The materials are stored at the homes of the recipients.

EFFECT: Materials costing \$9,369 could be stolen, sold, or lost to spoilage.

CAUSE: The Community Services Coordinator did not timely assign the temporary employees to verify that approved housing assistance projects were complete.

RECOMMENDATION:

1. The Community Services Coordinator should periodically assign staff to visit

housing recipients to verify that building materials are used for their approved purposes.

2. The Community Services Coordinator should work with recipients to devise a plan to use the materials.

FINDING III: THERE IS NO SEGREGATION OF DUTIES IN THE MANAGEMENT OF THE ACCOUNTING SYSTEM TO DETECT ERRORS OR UNAUTHORIZED ACTIVITY.

CRITERIA: Fiscal Policies and Procedures, Section VII, requires the Chapter to establish internal controls to ensure its resources are protected against waste and inefficiency and to ensure that accounting data is accurate and dependable. Segregation of duties is critical to implement effective internal controls because it provides assurance that no one individual has total control over processes thereby reducing the risk of errors and inappropriate actions without detection.

CONDITION: The former Community Services Coordinator had total control over the management of the accounting system without review by an independent individual because the Chapter did not have an Accounts Maintenance Specialist. As a result, the accounting system had duplicate vendor and employee profiles, numerous vendors using the same mailing address, and posting errors that were not detected. The Community Services Coordinator's responsibility in managing the accounting system includes the following:

- a. Creating vendor and employee profiles
- b. Entering and posting transactions (payments, receipts, and budgets)
- c. Generating checks
- d. Making adjusting entries
- e. Reconciling the accounting system to the bank
- f. Accessing the online bank account

EFFECT: The Chapter is at risk of accounting errors that effect the financial statements as well as unauthorized activities going undetected.

CAUSE: Although the Chapter officials and Administrative Service Center were aware that the Community Services Coordinator was solely managing the accounting system, neither the Chapter officials nor the Administrative Service Center stepped in to review the work of the Community Services Coordinator.

RECOMMENDATION:

1. The Chapter should implement segregation of duties in the management of the accounting system.
2. The Chapter officials and the Administrative Service Center should review the accounting system for accuracy in the absence of the Accounts Maintenance Specialist.

Conclusion

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

AUDITEE RESPONSE



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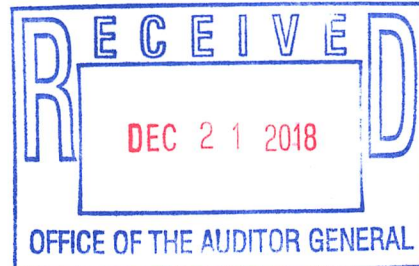
Etta M. Morgan, Chapter President
 Roger Morgan, Vice President
 Sylvia Morgan, Secretary/Treasurer
 Violette Nelson, Land Board
 Jonathan Perry, Council Delegate
 VACANT, Community Services Coordinator
 VACANT, Accounts Maintenance Specialist

RUSSELL BEGAYE, PRESIDENT

JONATHAN NEZ, VICE PRESIDENT

December 19, 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 Special Review findings of the Nahodishgish Chapter dated November 30, 2018. Pursuance to 12 NNC § 7A, 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 (3) days.

If you should have any questions, please feel free to contact the Nahodishgish Chapter at (505) 786-2028 or email at nahodishgish@navajochapters.org. Thank you.

Sincerely,

Etta M. Morgan
 Nahodishgish Chapter President

CONCURRENCE:

Roger Morgan, Jr.
 Nahodishgish Vice-President

Sylvia Morgan
 Nahodishgish Secretary-Treasurer

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