

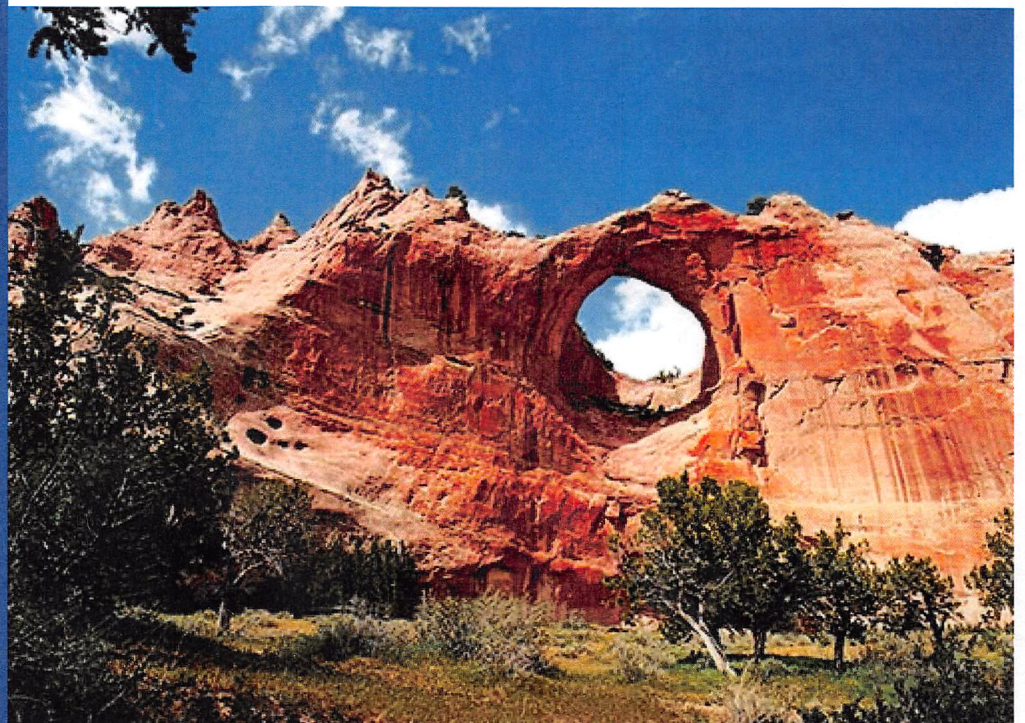
OFFICE OF THE AUDITOR GENERAL

The Navajo Nation

A Special Review of the Manuelito Chapter

**Report No. 19-08
December 2018**

Performed by:
Stacy Manuelito, Senior Auditor





December 26, 2018

Milton Davidson, President
MANUELITO CHAPTER
HCR 57- Box 9069
Gallup, NM 87301

Dear Mr. Davidson:

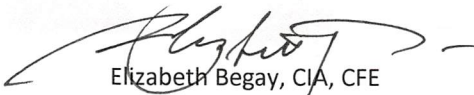
The Office of the Auditor General herewith transmits Audit Report 19-08, A Special Review of the Manuelito Chapter. The audit objective was to verify whether the Chapter spent funds in accordance with Navajo Nation and Chapter policies. A total of \$933,464 was disbursed from all funding sources during the period of our examination from October 1, 2015 through March 31, 2018. 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 issues identified:

- Finding I:** Payments to vendors are not supported with appropriate documentation.
- Finding II:** Contractors are hired without going through the bidding process and establishing a contract.
- Finding III:** A contractor was paid \$74,648 for work that could not be verified.
- Finding IV:** Travel expenditures are not properly approved, accurately calculated, and supported with appropriate documentation.
- Finding V:** Property inventory listing is incomplete, items are not tagged with identification numbers, and the fixed assets are not reported in the financial statement.
- Finding VI:** Housing assistance for building materials totaling \$15,733 was awarded to 16 recipients whose eligibility was not verified, and the Chapter did not verify the completion of housing assistance projects.

Detailed explanations on all audit issues can be found in the body of the report. The audit provides recommendations for remediation of the reported issues. In addition, 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 officials and administrative 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: Julia Ellison, Vice-President
Deborah A. Nelson, Secretary/Treasurer
Paulene McCabe, Community Services Coordinator
Seth Demon, Council Delegate
MANUELITO CHAPTER
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Chrono

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INTRODUCTION AND BACKGROUND

The Office of the Auditor General has conducted a Special Review of the Manuelito Chapter for the 30-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.

Manuelito 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 \$933,464 from all funding sources during the period examined.

Objective, Scope, and Methodology

The following objectives were established for this audit:

- Determine if disbursements to vendors were supported with appropriate documentation.
- Determine if contractors were procured competitively and scope of work is documented in a contract.
- Determine if contractual services were actually provided.
- Determine if travel expenditures were properly approved, accurately calculated, and supported with appropriate documentation.
- Determine if the Chapter completed a property inventory, properly tagged property, and total fixed assets were reported to the financial statement.
- Determine if the Chapter verified the eligibility of housing assistance recipients and funds were used for its intended purpose.
- Determine if temporary employees' personnel files were supported with required documentation.
- Determine if temporary employees' wages were supported with required documentation.
- Determine if the Chapter accurately posted budgets and expenditures to the accounting system.

The audit covers activities for the 30-month period of October 1, 2015 to March 31, 2018. The audit period includes the administration of two Community Services Coordinators. The former Community Services Coordinator resigned on October 13, 2017 and the current Community Services Coordinator started her employment on December 26, 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.

Throughout the course of the special review, there were areas in which controls are functioning as intended. Based on the selected testing performed on Chapter disbursement relating to temporary employee personnel files, wages paid, and comparison of posted budget to actual expenditures, there were no exceptions noted.

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 Manuelito Chapter officials and administration for their cooperation and assistance throughout the audit.

REVIEW RESULTS

Finding I: Payments to vendors are not supported with appropriate documentation.

Criteria: The Navajo Nation Procurement Rules and Regulation, Section (V)(A) requires the Chapter to maintain receipts and invoices, and prepare a receiving report for goods and services received. Section (IV)(J) states the Chapter is responsible for filling out a receiving record form by stating exactly what goods and/or services were received. The completed receiving record form and the vendor's invoices are to be retained to support payment.

Condition: We selected 52 payments totaling \$479,897 of \$547,149 paid to vendors during the 30-month audit period. Specifically, the following exceptions were noted:

Type of Exception	No. of Exceptions
No receipt/ invoice	19 of 52 (or 37%)
No receiving report	30 of 52 (or 58%)

Effect: \$411,906 (86%) of the payments made to vendors during the period examined were unsupported and the Chapter did not verify goods and services were received.

Cause: The Accounts Maintenance Specialist did not attach the receiving report and vendor's invoices when preparing checks. The former Community Services Coordinator and Chapter Secretary/Treasurer did not verify the required documentation before signing checks.

Recommendation:

1. The Accounts Maintenance Specialist should obtain and review the appropriate documents such as receiving report, invoice/receipts, or similar documents before preparing checks.
2. Authorized signers should not sign checks in the absence of supporting documentation.

FINDING II: Contractors are hired without going through the bidding process and establishing a contract.

Criteria: The Navajo Nation Procurement Rules and Regulations, Section (IV) requires the bidding process to be followed to ensure the selection of the best qualified contractors and vendors at competitive prices and establish a contract to document the scope of work.

Condition: We examined the \$468,406 total expenditures paid to all 5 contractors hired during the 30-month audit period. The following exceptions were noted:

Type of Exception	No. of Exceptions
No competitive bid	5 of 5 (or 100%)
No executed contract	5 of 5 (or 100%)

Effect: The Chapter may have selected a contractor that was not qualified at a higher price. The Chapter is not protecting Chapter assets if issues arise with the services provided by the contractors.

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 contractual services.

Recommendation:

1. The Chapter officials and staff should ensure that the procurement of contractual services goes through the bidding process.
2. The Chapter officials should ensure that there is a signed contract in place for all services before any work commence.

FINDING III: A contractor was paid \$74,648 for work that could not be verified.

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: 20 checks totaling \$86,408 was paid to a contractor that was hired for land and road improvement projects. The contractor is the vice-president of a neighboring Chapter (Tsayatoh Chapter) and has a full-time job in addition to being a Chapter official. The Manuelito Chapter Accounts Maintenance Specialist stated the contractor worked on weekends on the projects. Our review noted the following issues:

- 18 of 20 (\$74,648 of \$86,408) checks issued did not have receiving reports to document that the former Community Services Coordinator verified that the contractor completed the projects.
- 12 of 18 (\$45,497 of \$74,648) checks issued that did not have receiving report also did not have supporting invoice.
- For the eight checks that the contractor submitted invoices, the charges for each project were inconsistent and unsupported.
- The contractor's business was not listed on the internet and Navajo Nation vendor priority listing.
- The truck and the backhoe that the contractor listed on the invoice for the road project may be the same truck and backhoe listed by Tsayatoh Chapter fixed assets inventory.
- The contractor has the key to the Tsayatoh Chapter fuel tank, truck and backhoe.

Effect: There is a risk that Tsayatoh Chapter Vice President, working as a contractor, used the Tsayatoh Chapter's fuel, truck and backhoe to work on the Manuelito Chapter land/road projects. The Manuelito Chapter may have paid the contractor for the use of equipment for land/road projects that should have been paid to Tsayatoh Chapter. Overall, lacking invoices to support payments, there is a risk that the Manuelito Chapter paid the contractor for work that was not done.

Cause: The Chapter President instructed the administration staff to process the payments even if no invoices were attached.

Recommendation: Refer to Ethics and Rules Office and White Collar Crime for further investigation.

FINDING IV: Travel expenditures are not properly approved, accurately calculated, and supported with appropriate documentation.

Criteria: The Fiscal Policies and Procedures, Section (VII) (I) requires all travel requests and travel advances (80% of estimate cost) to be approved. Travelers are required to submit expense reports, trip reports, and receipts to support travel expenses. The CSC shall review all supporting documents the travelers submit.

Condition: The Chapter administration did not comply with the travel policies. For the 30-month audit period, 50 travel expenditures totaling \$12,207 out of \$46,964 were reviewed. 13 of 50 travel expenditures for the former Community Services Coordinator and current Chapter President totaling \$3,269 did not have travel documents on file to support the expenses paid to the traveler. The remaining 37 travel expenses had the following exceptions.

Type of Exception	No. of Exceptions
Travel authorizations were missing approval signatures.	5 of 37 (or 14%)
Travelers were paid more than the actual travel expenses.	16 of 37 (or 43%)
Travel expenditure were not supported with documentation (i.e. expense reports, trip reports, receipts)	7 of 37 (or 19%)

Effect: Travel payments totaling \$8,194 were unnecessarily paid to travelers and may not have benefit the Chapter because the travel was not authorized or did not have proper receipts and in some cases it was not clear that the travel actually occurred.

Cause: The Chapter allowed some travelers to be paid travel advances at 100% of the total estimated cost but then actual expenses were less than the estimated cost. The travelers were not required to reimburse the Chapter for overpaid travel expenses. In other cases, the former Community Services Coordinator did not review the travel documents at the beginning and conclusion of the travel.

Recommendation:

1. The Community Services Coordinator should approve all staff travel and a Chapter official should approve the Community Services Coordinator travel before the start of travel.
2. The Accounts Maintenance Specialist should not advance more than 80% of estimated travel cost.

3. The Community Services Coordinator and Chapter officials should ensure that all appropriate documents are attached to support the travel before issuing any payments.
4. The Accounts Maintenance Specialist and Community Services Coordinator should review the actual travel cost for accuracy.
5. The Community Services Coordinator and Chapter Secretary/Treasurer should require travelers to reimburse the Chapter for travel expenses paid in excess of actual travel cost.

Finding V: Property inventory listing is incomplete, items are not tagged with identification numbers, and the fixed assets are not reported in the financial statement.

Issue 1: The property records are incomplete and not all property items are tagged with identification number.

Criteria: The Property Policies and Procedures, Section (VII)(A), Section (V)(A) and Fiscal Policies and procedures, Section (VII)(F), requires the Chapter to protect Chapter assets by implementing the following: 1) perform an annual physical inventory of property, 2) maintain a complete and accurate inventory of all property, and 3) tag all property with an identification number.

Condition: We noted the following issues on property :

- The Chapter did not perform an annual physical inventory. The inventory list has not been updated in at least 2 years and is incomplete.
- The Chapter owned buildings: preschool, (2) modular buildings, Senior Center, warehouse, pump house and office equipment were not included in the inventory listing.
- 15 of 16 property items listed in the inventory were physically inspected and did not have property identification numbers affixed to the items.
- Two property items valued at \$3,200 were missing and their loss has not been documented.

Effect: The Chapter will not be able to detect lost, damaged, or stolen property.

Cause: The former Community Services Coordinator did not assign the Accounts Maintenance Specialist to conduct an annual physical inventory. The former Community Services Coordinator did not review the property listing for completeness.

Recommendation:

1. The Accounts Maintenance Specialist should conduct an annual physical inventory of Chapter property prior to year-end.
2. The Accounts Maintenance Specialist should ensure all property is tagged and the property identification tags are reflected in the inventory list.
3. The Community Services Coordinator should review the inventory list to ensure completeness.

Issue 2: 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 statement.
- Condition: The financial statement did not report the values of the Chapter fixed assets (such as buildings, heavy equipment, etc.)
- Effect: The Chapter’s assets are understated in the financial statement.
- Cause: The Accounts Maintenance Specialist does not have information on the value of fixed assets.
- Recommendation:
 1. The Accounts Maintenance Specialist should obtain the value of the fixed assets by researching the purchase invoices or market value and retaining an appraiser for Chapter owned buildings.
 2. The Community Services Coordinator should verify that the fixed assets are recorded in the accounting system and reported in the financial statement.

Finding VI: Housing assistance for building materials totaling \$15,733 was awarded to 16 recipients whose eligibility was not verified and the Chapter did not verify the completion of housing assistance projects.

Issue 1: The Chapter awarded housing assistance to 16 recipients whose eligibility was not verified.

- Criteria: The Housing Discretionary Policies and Procedure, Sections (V) requires the Chapter to verify eligibility of housing applicants against required documents.
- Condition: For the 30-month audit period, the Chapter awarded \$15,733 of housing assistance for building materials to 16 recipients. We examined the files of all 16 recipients and noted the following exceptions:

Type of Exception	No. of Exceptions
No home site leases.	6 of 16 (or 38%)
No home assessments to evaluate the applicant’s need.	16 of 16 (or 100%)
Not a registered Chapter voter	1 of 16 (or 6%)

- Effect: The Chapter awarded \$15,733 to 16 recipients whose eligibility was not verified.
- Cause: The Accounts Maintenance Specialist did not effectively use the check-off list for ensuring all required documents were on file.
- Recommendation:
 1. The Community Services Coordinator and Accounts Maintenance Specialist should use the approved check-off list to ensure all required documents are on file prior to approving assistance in accordance to the housing policies and procedures.

Issue 2: The Chapter did not verify the completion of housing assistance projects.

- Criteria:** The Housing Discretionary Policies and Procedure, Sections (VII) requires the Community Services Coordinator conduct a follow-up to ensure housing assistance is used for their intended purpose.
- Condition:** The Chapter did not verify that the housing assistance projects were complete for all 16 recipients awarded. Additionally, we conducted site visits on five recipients that were assisted with building materials for roof repair; 3 of 5 recipients did not repair their roof.
- Effect:** The building materials costing \$2,807 for housing projects that were not verified for completeness could be stolen, sold, or lost to spoilage.
- Cause:** The former Community Services Coordinator did not conduct on-site visits or assign anyone to verify completion of approved housing projects.
- Recommendation:**
1. The Community Services Coordinator should track the recipients' use of housing assistance materials.
 2. The Community Services Coordinator should document a completion report of housing assistance projects.

Conclusion

The Chapter disbursed a total of \$933,464 from all funding sources during the period of our examination. A total of \$435,923 (86%) out of \$507,837 of the disbursements tested was not spent in accordance with the Chapter and Navajo Nation policies and procedures.

Payments to vendors are not supported with appropriate documentation.

Contractors are hired without going through the bidding process and establishing a contract.

A contractor was paid \$74,648 for work that could not be verified.

Travel expenditures are not properly approved, accurately calculated, and supported with appropriate documentation.

Property inventory listing is incomplete, items are not tagged with identification numbers, and the fixed assets are not reported in the financial statement.

Housing assistance for building materials totaling \$15,733 was awarded to 16 recipients whose eligibility was not verified and the Chapter did not verify the completion of housing assistance projects.

AUDITEE RESPONSE

Milton Davidson
President

Julia Ellison
Vice-President

Deborah Nelson
Secretary-Treasurer



MANUELITO (KIN HOZHONI) CHAPTER GOVERNMENT

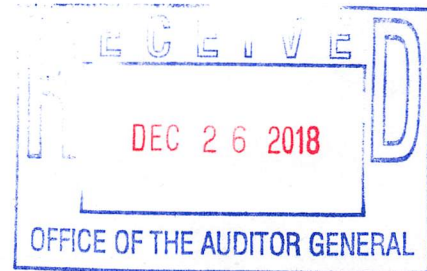
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Paulene F. McCabe
Community Services Coordinator

Seth Damon
23rd NN Council Delegate

Paul Houston
Land Board Member

December 17, 2018



Navajo Nation Office of Auditor General
Elizabeth Begay, Auditor General, CIA, CFE
Post Office Box 708
Window Rock, Arizona 86515

Dear Ms. Begay:

The chapter staff and officials are in receipt of the final draft to the "Special Review on Manuelito Chapter" the Findings dated December 14, 2018. Pursuant to Title 12, N.N.C., §7(A), we agree to the audit findings and will begin the process of the Corrective Action Plan based on the recommendations made by the Office of Auditor General within thirty (30) days.

If you should have any questions, please feel free to contact the Manuelito Chapter Administration at 505-905-3073.

Respectfully Submitted,

Paulene F. McCabe
Community Services Coordinator
Manuelito Chapter Administration

CONCURRENCE:

Milton Davidson, Chapter President

CC: Chapter Officials (2)
ASC: Johnny Johnson, Department Manager
Patricia Begay, SPPS, Ft. Defiance Service Area