

OFFICE OF THE AUDITOR GENERAL

The Navajo Nation

A Special Review of Lukachukai Chapter

Report No. 19-22
June 2019

Performed by:
Karen Briscoe, Principal Auditor
Jasmine Jishie, Associate Auditor



June 28, 2019

Samuel Yazzie, President
LUKACHUKAI CHAPTER
P.O. Box 248
Lukachukai, NM 86507

Dear Mr. Yazzie:

The Office of the Auditor General herewith transmits Audit Report No. 19-22, A Special Review of the Lukachukai Chapter. The audit objective was to verify whether Chapter funds were spent in accordance with Navajo Nation laws and regulations and Chapter policies and procedures. During the audit period of April 1, 2018 to March 31, 2019, \$347,524 of Chapter funds were disbursed. Our review revealed the Chapter has not implemented appropriate controls to provide reasonable assurance it complies with applicable laws, regulations, policies and procedures. Listed below are the issues identified:

Finding I: Payroll taxes were remitted late.

Finding II: New hires were not being reported to the State of Arizona.

Finding III: Personnel action forms were not properly processed for temporary employees.

Finding IV: Controls over chapter property need improvement to ensure property is adequately identified, tracked, insured and well documented.

Finding V: Controls over chapter housing assistance need improvement to ensure home ownerships are properly verified and building materials are used as intended.

Finding VI: Chapter renovation project exceeding \$62,000 was improperly managed.

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

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

Sincerely,



Helen Brown
Delegated Auditor General

xc: Philip Sandoval, Jr., Vice President
Mary Ann Leonard, Secretary/Treasurer
Nelson S. Begaye, Council Delegate
Berlinda McKinley, Community Services Coordinator
LUKACHUKAI CHAPTER
Johnny Johnson, Department Manager II
Edgerton Gene, Senior Program & Projects Specialist
ADMINISTRATIVE SERVICES CENTER/DCD
Chrono

TABLE OF CONTENTS

	Page No.
REVIEW RESULTS.....	1
FINDING I: Payroll taxes were remitted late.....	1
FINDING II: New hires were not being reported to the State of Arizona.....	1
FINDING III: Personnel action forms were not properly processed for temporary employees.	2
FINDING IV: Controls over chapter property need improvement to ensure property is adequately identified, tracked, insured and well documented.....	3
FINDING V: Controls over chapter housing assistance need improvement to ensure home ownerships are properly verified and building materials are used as intended.....	5
FINDING VI: Chapter renovation project exceeding \$62,000 was improperly managed.....	6
Conclusion.....	7
APPENDIX A: BACKGROUND.....	8
APPENDIX B: Objective, Scope and Methodology.....	9
Client Response.....	10

REVIEW RESULTS

Finding I: Payroll taxes were remitted late.

- Criteria: IRS regulations require payroll taxes collected during a month to be deposited to the bank by the 15th day of the following month. Non-compliance could result in penalties.
- Condition: For the review period, the Chapter did not consistently deposit their payroll taxes by the 15th of each month. The Chapter made late deposits anywhere from 2 weeks to 3 ½ months after the due date.
- Effect: The Chapter will be assessed penalties and fees which will need to be paid from funds that could have been used for other chapter purposes.
- Cause:
- The former Accounts Maintenance Specialist did not report and remit the chapter payroll taxes.
 - The current Community Services Coordinator had to research prior pay periods to determine the total taxes due to date which was a time-consuming process. This delayed the reporting and payment of taxes.
 - Also, since the Chapter officials did not inquire with the staff, they were unaware that the taxes were not being paid timely.
- Recommendations:
1. The Community Services Coordinator should deposit payroll taxes with the bank each month on or before the 15th of each month.
 2. The Chapter officials should periodically review the chapter balance sheet to verify tax liabilities are being paid by the due dates to avoid unnecessary fines and penalties.

Finding II: New hires were not being reported to the State of Arizona.

- Criteria: Arizona Law, Title 23, Chapter 4, Article 5, requires employers to report newly hired and re-hired employees to the state directory within 20 days of their hire date. There are no exemptions from this law.
- Condition: Of the 30 temporary employees hired by the Chapter during the audit period, none were reported to the State of Arizona.
- Effect: Although the chapter has not been fined to date, the Chapter could be fined \$25 up to \$500 for each unreported new or re-hired employee resulting in potential fines anywhere from \$750 to \$15,000. This would be considered unnecessary costs to the chapter.
- Cause:
- The Chapter staff was not aware that new hires are required to be reported to the State.
 - The Community Services Coordinator stated when she was hired there was no orientation from supervisors to inform her of the required State reporting.

- Recommendations:
1. The Chapter staff should create an account with the State and electronically report new hires and retain copies of the confirmation notice issued after reporting is complete.
 2. The Community Services Coordinator should periodically reconcile new hire reports to personnel files to verify that all new hires are reported.
 3. The Community Services Coordinator should create a master guide, with applicable directions, that is accessible by all new chapter employees upon hiring, which identifies all reporting requirements.

Finding III: Personnel action forms were not properly processed for temporary employees.

Criteria: Fiscal Policies and Procedures, Section VII.H, as well as the Chapter's Public Employment Program Policies and Procedures, Section IV.A, states that the Chapter administration shall complete, date and sign the employment and termination notices (i.e., personnel action form) of temporary employees and maintain these records at the Chapter in personnel files.

Condition: Personnel action forms for chapter temporary employees were incomplete and lacked authorized signatures. Personnel files for 30 temporary employees revealed the following:

- a) 25 (83%) had employment notices that were not approved by an authorized individual for new hires;
- b) 21 (70%) had employment notices that were not approved by an authorized individual for terminations; and
- c) 11 (37%) had employment notices that did not support the pay rate changes.

Effect: Since the chapter did not adhere to applicable chapter policies, the Chapter paid \$37,826 to individuals who were not properly authorized to work at the Chapter.

Cause:

- For the review period, the chapter only had one staff who prepared the personnel action forms, while the Chapter officials were the approvers, but the Chapter officials did not consistently sign all personnel action forms.
- The Chapter officials did not adhere to all applicable policies and procedures.

Recommendations:

1. The Chapter staff should consistently prepare personnel action forms for all employees to document all changes in employment such as hiring, terminating, and pay rate changes.
2. The Chapter officials should ensure that they consistently review and approve personnel action forms.

Finding IV: Controls over chapter property need improvement to ensure property is adequately identified, tracked, insured and well documented.

Issue 1: The Chapter's property is not insured.

- Criteria: Property Policies and Procedures, Section IV, requires the Chapter to maintain adequate insurance coverage for Chapter property.
- Condition: As of June 14, 2019, the chapter property is not insured for FY 2019.
- Effect: Chapter property valued at approximately \$140,000 could be unrecoverable if such property was stolen or otherwise destroyed.
- Cause:
- When hired in August 2018, the Community Services Coordinator was not informed of the property insurance reporting requirements and only became aware in December 2018 when she was informed of uninsured property by the Risk Management Department. However, she did not submit a property inventory until May 2019.
 - The property inventory submitted by the Community Services Coordinator is incomplete and missing pertinent information including property identification numbers and values. Therefore, the chapter's exposure summary report was incomplete and Risk Management Department cannot determine the insurance premium to bill the Chapter.
- Recommendations:
1. The Chapter staff should complete an annual inventory each year prior to the new fiscal year and update their inventory records with complete information.
 2. The Chapter staff should complete the exposure summary report and submit it with the inventory to Risk Management Department.
 3. The Chapter staff should pay for insurance coverage each year prior to the new fiscal year and avoid lapses in coverage.

Issue 2: Property was not tagged with identification numbers.

- Criteria: Property Policies and Procedures, Section IV, requires Chapter property to be tagged with property identification numbers.
- Condition: Eight fixed assets totaling \$86,387 were physically inspected and all did not have property identification tags. The Community Services Coordinator acknowledged that the property was not tagged with identification numbers.
- Effect: Without identification numbers, the Chapter cannot prove its ownership of recovered property due to theft nor can the Chapter effectively track assigned property that leave chapter premises.

- Cause:
- Without an Accounts Maintenance Specialist to assist with chapter operations, the Community Services Coordinator is short-staffed to address property needs.
 - However, the Community Services Coordinator had temporary employees to assist but did not assign any tasks to complete the property tagging.

- Recommendations:
1. The Chapter staff should ensure all chapter property is tagged with identification numbers.
 2. The Chapter staff should use temporary employees to assist with tagging the property.

Issue 3: The assignment of property to staff and officials is not documented and approved.

Criteria: Property Policies and Procedures, Section IV, states that all Chapter property shall be kept on Chapter premises, except where it has been approved for other locations by the Chapter Manager. If individuals are assigned to be accountable for property, records must be maintained to show the location of such property and the individuals responsible for its safekeeping.

Condition: The grazing official maintains chapter property at his personal residence including a stock trailer, squeeze chutes, livestock panels, a laptop and printer. In addition, the Community Services Coordinator said that the former Accounts Maintenance Specialist had a laptop that was not returned upon her resignation in 2018. The assignment of these chapter property valued at approximately \$18,700 was not documented and there was no authorization for these individuals to take the property off chapter premises and maintain at their personal residences.

Effect: The Chapter is at risk for property loss in the event the items stored away from chapter premises are stolen or destroyed and without proper documentation and approval, the Chapter will be challenged in holding the elected official and staff accountable for any property loss.

- Cause:
- The former Accounts Maintenance Specialist had complete control in managing the chapter property without supervision. Therefore, she assigned herself a laptop without the Chapter officials' knowledge.
 - The Chapter officials are not fully knowledgeable of property controls and the policies and procedures regarding property assignments.

- Recommendations:
1. Chapter staff and officials who are assigned chapter property should sign statements acknowledging the assignment, location, and safeguarding of the property.
 2. The Community Services Coordinator or authorized supervisor should document his/her approval of the property assignment made to staff and officials.

Issue 4: The fixed assets value reported in the financial statements cannot be supported with documentation.

- Criteria: Fiscal Policies and Procedures, Section VII.F, requires the Chapter to maintain fixed assets records and to report the value of fixed assets in the financial statements. The Chapter is required to establish internal controls to ensure that accounting data is accurate.
- Condition: The Chapter does not have records to support the fixed assets value of \$316,669 reported in the financial statements as of March 2019.
- Effect: The chapter financial statements are unreliable because the Chapter is reporting an unsupported value of \$316,669 for its fixed assets. The lack of reliable financial statements would hinder the Chapter in making informed financial decisions.
- Cause:
- The former Chapter staff recorded the current fixed assets value without an independent verification to ensure the accuracy of the reported value.
 - The current Community Services Coordinator has been unable to locate the records that would support the amount recorded by the former AMS and therefore unable to determine how she arrived at the value.
- Recommendations:
1. The Chapter staff should maintain records for chapter fixed assets to support the amount reported in the financial statements.
 2. The Chapter should require the Administrative Services Center to verify that the fixed assets value reported in the financial statements can be supported with documentation.

Finding V: Controls over chapter housing assistance need improvement to ensure home ownerships are properly verified and building materials are used as intended.

Issue 1: The Chapter did not verify that all housing assistance recipients had evidence of home ownership.

- Criteria: Chapter housing policies, Section V, requires applicants to have evidence of home ownership to be eligible for housing assistance.
- Condition: For the review period, the Chapter awarded \$18,589 to a total of 14 recipients. Of the 14, four (29%) did not have proof of home ownership on file contrary to established policies.
- Effect: The Chapter awarded \$4,253 in housing assistance to four applicants who were ineligible.

Cause:

- The Chapter’s housing assistance checklist is not effectively used by staff to verify required documents were provided by applicants.
- The Chapter officials did not confirm that the Chapter staff obtained home ownership documents from applicants prior to signing checks for housing assistance.

Recommendations:

1. The Community Services Coordinator should remain consistent in using the checklist to ensure evidence of home ownership is provided by the applicant prior to approving assistance.
2. Chapter officials should verify applicants approved for housing assistance have evidence of home ownership prior to signing checks.

Issue 2: The Chapter did not verify that building materials were used for their approved purpose.

Criteria: Chapter housing policies, Section VI, requires the Chapter to revisit the homeowner to complete a final inspection to verify building materials were used for their approved purpose and to document this action.

Condition: For the review period, the Chapter awarded \$18,589 to recipients but the staff did not perform onsite monitoring visits to recipient homes to verify the building materials were used for their approved purposes.

Effect: Materials costing \$18,589 could become a potential financial loss to the Chapter if the materials were stolen, sold, or lost due to spoilage.

Cause:

- Without an Accounts Maintenance Specialist to assist with chapter operations, the Community Services Coordinator’s has not been able to make the visits to the recipient’s home to evaluate the completion of housing assistance projects.
- The Community Services Coordinator also has not used the temporary employees to assist with completing this task.

Recommendations:

1. The Community Services Coordinator should schedule visits to the housing recipients homes to evaluate if the building materials were used to complete approved housing assistance projects.
2. The Community Services Coordinator should seek the assistance of temporary employees to complete the revisits to the housing recipient’s homes.
3. The Chapter officials should verify that the Chapter staff revisit the homes of housing recipients to confirm building materials were used for their approved purpose.

Finding VI: Chapter renovation project exceeding \$62,000 was improperly managed.

Criteria: 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:** During the audit, a chapter renovation project was identified with project costs exceeding \$62,500 as of March 2019. An evaluation of the project revealed there was no planning, no defined scope of work and unclear project timelines. In addition, licensed professionals needed for the project were not hired and no progress reports were found on file. The Community Services Coordinator also reported the project is delayed with electrical and cooling/heating system issues.
- Effect:** Unforeseen issues and improperly managed change orders could continue to raise project costs and delay the project further. Once the project is completed, the Chapter could have potentially expended more resources than were actually needed resulting in an inefficient use of resources.
- Cause:**
- The former Accounts Maintenance Specialist lacked the expertise and skill sets needed to effectively manage chapter capital projects which resulted in the excess costs.
 - The former Accounts Maintenance Specialist also had complete control over the renovation project and made decisions without input from supervisors and Chapter officials.
- Recommendations:**
1. The Chapter staff and officials should implement project management controls to properly manage the Chapter capital projects.
 2. The Chapter staff and officials should seek guidance from the Capital Projects Management Department within the Division of Community Development to address chapter renovation issues.
 3. The Chapter officials or authorized supervisors should provide proper oversight of Chapter projects.

CONCLUSION

The Chapter made late payroll tax deposits anywhere from 2 weeks to 3 ½ months after the due date. Temporary employees were not reported to the State as new hires. Employment notices were not being completed and signed by an authorized individual to hire and terminate temporary employees. Chapter property was not insured, tagged, and properly assigned to staff and officials. The reported fixed assets value cannot be supported with documentation. The Chapter was not verifying that all housing assistance recipients had evidence of home ownership. The Chapter did not ensure building materials were used for their approved purpose by recipients. The Chapter has spent more than \$62,500 on chapter renovations without proper oversight.

Overall, the Chapter has not complied with all Navajo Nation and Chapter policies and procedures and laws while expending chapter funds and there are control weaknesses posing various risks. These deficiencies resulted in the six findings identified in the audit report.

BACKGROUND

The Lukachukai 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 Accounts Maintenance Specialist resigned from the Chapter in October 2018. Therefore, at the time of the review, the Chapter did not have an Accounts Maintenance Specialist. The current Community Services Coordinator was hired in August 2018.

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.

The Chapter expended a total of \$347,524 for the 12-month audit period ending March 31, 2019.

Objective, Scope, and Methodology

The Office of the Auditor General has conducted a Special Review of the Lukachukai Chapter pursuant to the authority vested in the Office of the Auditor General by 12 N.N.C., Chapter 1, § 1 - 10.

The following objectives were established for this audit:

- Determine if payroll was paid timely.
- Determine if new hires were reported to the State.
- Determine if personnel action forms were processed for temporary employees.
- Determine if property was insured, tagged, accurately assigned, and the fixed assets value were supported with records.
- Determine if the Chapter verified that housing assistance recipients had evidence of home ownership and building materials were used for their approved purpose.
- Determine if controls were in place for the execution of Chapter projects.

The audit covers activities for the 12-month period of April 1, 2018 through March 31, 2019.

In meeting the audit objectives, 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 Lukachukai Chapter officials and administration for their cooperation and assistance throughout the audit.

CLIENT RESPONSE



Lukachukai Chapter Government

Nelson E. Begaye, Council Delegate

Samuel Yazzie, President

Philip Sandoval, Jr., Vice-President

Mary Ann Leonard, Secretary/Treasurer

Reederson Dee, Grazing Representative

Berlinda Mckinley Community Services Coordinator

VACANT, Accounts Maintenance Specialist

**JOHNATHAN NEZ
PRESIDENT**

**MYRON LIZER
VICE-PRESIDENT**

June 25, 2019

Navajo Nation Office of Auditor General
Helen Brown, Principal Auditor
Delegated Auditor General
Window Rock, Arizona 86515

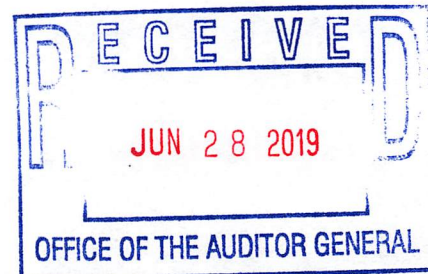
RE: Response to the Special Review

We are in receipt of your final draft of the Special Review of Lukachukai Chapter dated June 25, 2019. Pursuant to 12 Title N.N.C S7A, we agree to the audit findings and will begin the process of Corrective Action Plan based on the recommendations made by your office within 30 days.

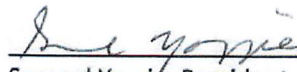
If you should have any questions regarding this matter, please feel free to contact the Lukachukai Chapter at (928)787-2500 or email at lukachukai@navajochapters.org.

Sincerely,

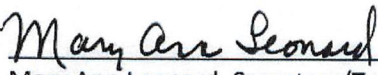

Berlinda Mckinley
Community Service Coordinator



CONCURRENCE:


Samuel Yazzie, President

Phillip Sandoval, Vice President


Mary Ann Leonard, Secretary/Treasurer

Cc: File
Nelson Begaye, Council Delegate
Lukachukai Chapter
Johnny Johnson, NNDCD Department Manager II
Edgerton Gene, Senior Programs & Project Specialist
Administrative Service Center/DCD