

OFFICE OF THE AUDITOR GENERAL

The Navajo Nation

**A Second Follow-Up Review
of the
Dilkon Chapter
Corrective Action Plan Implementation**

**Report No. 19-30
September 2019**

**Performed by:
NEWBERRY & ASSOCIATES, LTD.**





September 30, 2019

Lorenzo Lee, Sr., President
DILKON CHAPTER
HCR-63 Box E
Winslow, AZ 86047

Dear Mr. Lee:

The Office of the Auditor General herewith transmits Audit Report No. 19-30, a Second Follow-up Review of the Dilkon Chapter Corrective Action Plan Implementation. The follow-up was conducted in conjunction with Newberry & Associates, Ltd., Certified Public Accountants, to provide information on Dilkon Chapter's progress in resolving the audit issues noted in the initial audit of the chapter.

BACKGROUND

In 2016, the Office of the Auditor General performed an internal audit of Dilkon Chapter and issued audit report no. 16-13. A corrective action plan was developed by the Dilkon Chapter in response to the review. The audit report and corrective action plan were approved by the Budget and Finance Committee on July 5, 2016, per resolution no. BFJY-20-16.

In 2018, a follow-up review was completed and audit report no. 18-37 was issued. Based on the follow-up review results, the Dilkon Chapter did not resolve 15 of 25 audit issues. Accordingly, the Office of the Auditor General recommended sanctions be imposed against the Chapter and Chapter officials in accordance with 12 N.N.C. Section 9 for failure to implement the corrective action plan. However, on December 27, 2018, the Budget and Finance Committee approved to extend the implementation of the corrective action plan to March 31, 2019 to allow the Dilkon Chapter additional time to implement the corrective action plan.

OBJECTIVE AND SCOPE

The objective of the second follow-up review is to determine whether the Dilkon Chapter fully implemented its corrective action plan based on a six-month review period of January 1, 2019 to June 30, 2019. Our review was based on inquiries, review of records and audit test work.

SUMMARY

The Dilkon Chapter fully implemented its corrective action plan to resolve the remaining 15 audit issues noted in audit report 16-13. See attached Exhibit A for the detailed explanation of the second follow-up review results.

CONCLUSION

Dilkon Chapter has reasonably addressed and resolved the audit issues. Therefore, the Office of the Auditor General rescinds the recommendation for sanction against the Dilkon Chapter and Chapter officials.

Ltr. to Lorenzo Lee, Sr.
Page 2

In conclusion, we wish to thank the Dilkon Chapter for assisting in this follow-up review.

Sincerely,



Helen Brown, CFE, Principal Auditor
Delegated Auditor General

Attachment

xc: Marie B. Acothley, Vice President
Delores J. Claw, Secretary/Treasurer
Margie Barton, Chapter Manager
Elmer P. Begay, Council Delegate
DILKON CHAPTER
Eunice Begay, Senior Program Projects Specialist
Sonlatsa Jim-Martin, Acting Department Manager II
ADMINISTRATIVE SERVICES CENTER/DCD
Chrono



Newberry & Associates, Ltd.

Certified Public Accountants

*407 South Cliff
Gallup, NM 87301*

*505-722-6633
Fax: 505-863-7803*

Second Follow-Up Review of the Corrective Action Plan Implementation of the Navajo Nation Dilkon Chapter

Executive Summary

Helen Brown, Navajo Nation Delegated Auditor General
Office of the Auditor General-Navajo Nation
and
Navajo Nation Council Budget and Finance Committee

Newberry & Associates performed a second follow-up review of the Dilkon Chapter's corrective action plan (CAP) to determine whether the corrective measures developed by the chapter in a corrective action plan have been fully implemented to address the audit issues. In 2016, the Navajo Nation Office of the Auditor General, in conjunction with Finley & Cook Certified Public Accountants, conducted an internal audit of the Dilkon Chapter and issued report no. 16-13. In response to the report no. 16-13, the Dilkon Chapter developed a corrective action plan that outlined corrective measures that the chapter would implement to address the audit findings. The corrective action plan was approved by the Navajo Nation Council Budget and Finance Committee on July 5, 2016. With the committee's approval, Dilkon Chapter was compelled to implement its corrective action plan within a 12-month timeframe.

In September 2018, the Office of the Auditor General, again in conjunction with Finley & Cook Certified Public Accountants, conducted a 12-month follow-up review to determine whether the corrective action plan was fully implemented and issued report no. 18-34. The report revealed that Dilkon Chapter did not fully implement its corrective action plan--leaving fifteen issues outstanding. Pursuant to Section 9 of Title 12 Navajo Nation Code, the Office of the Auditor General recommended that sanctions be imposed on the Dilkon Chapter and its officials for failure to fully implement the corrective action plan. On December 27, 2018, the Budget and Finance Committee approved the sanctions, but they would only become effective after the completion of a 2nd follow-up review and if the auditors concluded that the Chapter failed to fully implement its corrective action plan.

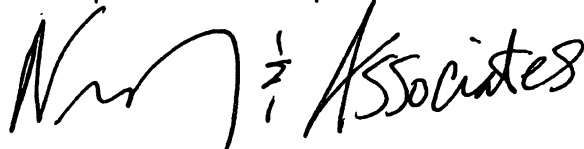
The scope of the second follow-up review was the six-month period of January 1, 2019 through June 30, 2019. In performing the second follow-up review, we interviewed selected Dilkon Chapter staff and officials, we reviewed the Dilkon Chapter's Five Management System (FMS) Manual, we reviewed the

internal audit report no. 16-13 and the follow-up review report no. 18-34. Based on our inquiries and observations and review of the internal audit report and the follow up review report, we assessed the control risk and compliance risk at a moderate level. There is a risk that the Chapter is not in compliance with its FMS Manual, and that the financial statements could be misstated. To alleviate the control risk and compliance risk, we selected samples of disbursements and cash receipts using non statistical judgmental methods and using a random number generator, so that we could examine the documentation of the sample disbursements and cash receipts and then determine whether the Chapter is in compliance with its procedures as set out in the chapter's FMS Manual. We performed the above stated procedures and other procedures deemed necessary to verify the implementation of the corrective measures.

A summary of the current status of the Dilkon Chapter corrective action plan implementation is included in Exhibit A, and the 2019 Status of each issue is included in Attachment A.

CONCLUSION

The Dilkon Chapter has resolved the fifteen outstanding issues, which include twenty-seven corrective measures of the corrective action plan. Therefore, we recommend that the sanctions approved by the Budget and Finance Committee in December 27, 2018, NOT be imposed on the Dilkon Chapter. Details on all the corrective action plan measures that were fully implemented are included in the attached 2nd Follow Up Review Results report.


Gallup, New Mexico
September 30, 2019

NEWBERRY & ASSOCIATES CONTACT INFORMATION

Brett Newberry, CFE, CPA
(505) 722-6633
brett@naltd.net

2nd FOLLOW UP REVIEW RESULTS
Dilkon Chapter Corrective Action Plan Implementation
Review Period: January 1, 2019 through June 30, 2019

Audit Issues	Total # of Corrective Measures	# of Corrective Measures Implemented	# of Corrective Measures Not Implemented	Audit Issue Resolved?	Review Details
1. Expenditures were made without proper support documentation to justify the expense.	1	1	0	Yes	Attachment A
2. Purchases made without obtaining the proper quotes from three different vendors.	1	1	0	Yes	
3. The required documentation established by fund program checklists for Veterans, Housing Discretionary, and Scholarship Funds was missing from the support provided for multiple transactions.	3	3	0	Yes	
4. Subpoenaed documents received from vendors did not match payments recorded by the Chapter and were not budgeted.	2	2	0	Yes	
5. Capital assets are not recorded by fund source.	1	1	0	Yes	
6. Cash is not being deposited in an accurate and timely manner.	2	2	0	Yes	
7. Payroll checks were issued outside of the established pay dates.	1	1	0	Yes	
8. Health insurance premiums were not paid timely to the Navajo Nation and includes payments on behalf of terminated employees.	3	3	0	Yes	
9. Personnel Action Form (PAFs) not provided for some of the payroll samples selected.	2	2	0	Yes	
10. Hourly rates on employee's paychecks varied from the rates stated on Personnel Action Forms in their personnel files.	1	1	0	Yes	

2nd FOLLOW UP REVIEW RESULTS
Dilkon Chapter Corrective Action Plan Implementation
Review Period: January 1, 2019 through June 30, 2019

Audit Issues	Total # of Corrective Measures	# of Corrective Measures Implemented	# of Corrective Measures Not Implemented	Audit Issue Resolved?	Review Details
11. Personnel Action Forms are missing proper signatures.	1	1	0	Yes	Attachment A
12. A financial audit has not occurred for the Chapter since it was certified as a Local Government Agency in December 2010.	2	2	0	Yes	
13. Arizona state unemployment returns and contributions were not paid in a timely manner.	3	3	0	Yes	
14. Quarterly Federal payroll reporting was not filed timely and the monthly Federal tax deposits were not paid timely.	3	3	0	Yes	
15. Checks were issued before fund approval forms were signed.	1	1	0	Yes	
TOTAL:	27	27	0	15- Yes 0- No	

WE DEEM CORRECTIVE MEASURES: **Implemented** where the Chapter provided sufficient and appropriate evidence to support all elements of the implementation; and **Not Implemented** where evidence did not support meaningful movement towards implementation, and/or where no evidence was provided.

◆ 2019 STATUS	Issue 1: Expenditures were made without proper support documentation to justify the expense. RESOLVED
The Chapter Manager mandating the practice of all procurement policies for all expenditures \$0.00-\$50,000.00 per FMS Procurement Policy. Of the twenty (20) disbursements examined, invoices and/or adequate documentation was attached to all twenty (20) disbursements.	
◆ 2019 STATUS	Issue 2: Purchases made without obtaining the proper quotes from three different vendors. RESOLVED
Of the twenty (20) disbursements examined, all were between \$0.00 and \$2,500.00 and all applicable purchases included documentation of three verbal quotations including vendor's name, individual's contacted, price quotation, date of contact, phone numbers and the method of contact.	
◆ 2019 STATUS	Issue 3: The required documentation established by fund program checklists for Veterans, Housing Discretionary, and Scholarship funds was missing from the support provided for multiple transactions. RESOLVED
The Chapter Manager is ensuring all record management practices are mandated. Of the two (2) housing discretionary funds disbursements examined and the six (6) Scholarship Claims Fund disbursements examined, all eight (8) disbursements included the check list of required documentation, which was attached to each application. The Chapter Manager is ensuring the required documents are provided by the applicants according to policies and procedures. All eight (8) files examined included the required documents.	
◆ 2019 STATUS	Issue 4: Subpoenaed documents received from vendors did not match payments recorded by the Chapter and were not budgeted. RESOLVED
The Chapter Manager and Officials are ensuring checks are issued in the amount of the invoice prior to signing checks. Of the twenty (20) checks examined, all twenty (20) agreed to the amount of the invoice. Of the twenty (20) checks examined, all required documents were available for review and the dates on the fund approval forms were prior to or the same date as the dates on the checks.	
◆ 2019 STATUS	Issue 5: Capital assets are not recorded by fund source. RESOLVED
Inventories of all capital assets were examined and included the following required information: Property ID Number; Serial Number; Description; Date of Purchase; Purchase price; Fund Source; Type of Property; Location; Last Inventory date and Signature of employee performing inventory. The capital expenditures are identified by fund source on the listing of capital assets. The Chapter is in the process of recording the capital assets in the accounting system.	
◆ 2019 STATUS	Issue 6: Cash is not being deposited in an accurate and timely manner. RESOLVED
Nine (9) "weekly" periods were reviewed and the cash is being deposited in an accurate and timely manner. The daily receipts are recorded on a "Cash Drawer Count" pre-printed sheet each day Monday through Friday. The cash is locked in a safe located in the Chapter Manager's office, which is secured when the Chapter Manager is not in the building. The daily cash receipts are deposited on Fridays at the Winslow Wells Fargo Bank. The weekly deposit slip is attached to the five days of Cash Counts. During the first week of January 2019, one of the daily deposits was more than \$100 and it was converted to a money order to prevent discrepancies. The Chapter Officials are retaining signed acknowledgements of counting the daily cash receipts with the Cash Drawer Count Forms.	

◆ 2019 STATUS	Issue 7: Payroll checks were issued outside of the established pay dates. RESOLVED
Of the eight (8) payroll checks examined, all eight (8) checks were written and distributed during the regular authorized pay schedule. The general ledger for the six month review period was scanned to determine that the payroll dates were on the regular authorized pay schedule.	
◆ 2019 STATUS	Issue 8: Health insurance premiums were not paid timely to the Navajo Nation and includes payments on behalf of terminated employees. RESOLVED
The six (6) months of health insurance premium notices and the payments for the premiums were examined. The insurance premiums paid during the six (6) month review period were paid timely to the Navajo Nation. Per inquiry of the Administrative Assistant, the Chapter Manager works directly with the insurance provider when and if a credit is due the Chapter. No credits were noted during the six (6) month period that was reviewed. Per inquiry, the Chapter Manager provides timely notice to the insurance provider when employees are terminated. Only two employees are covered under the insurance premiums during the six (6) month review period.	
◆ 2019 STATUS	Issue 9: Personnel Action Form (PAFs) not provided for some of the payroll samples selected. RESOLVED
All Personnel Action Forms were available for each of the eight (8) employees included in the payroll sample. The Personnel Action Forms (PAFs) were completed, reviewed and approved prior to the date of the payroll checks examined. No discrepancies were noted, and all Personnel Action Forms of the employees in the sample were on file at the Chapter.	
◆ 2019 STATUS	Issue 10: Hourly rates on employee's paychecks varied from the rates stated on Personnel Action Forms in their personnel files. RESOLVED
Of the eight (8) payroll checks in the sample, the hours the employees were paid agreed with the hourly rate per the Personnel Action Forms in their personnel files.	
◆ 2019 STATUS	Issue 11: Personnel Action Forms are missing proper signatures. RESOLVED
All eight (8) of the Personnel Action Forms of the eight (8) employees whose paychecks were included in the sample had the proper signatures on the forms.	
◆ 2019 STATUS	Issue 12: A financial audit has not occurred for the Chapter since it was certified as a Local Government Agency in December 2010. RESOLVED
Audit engagement letters for the years ended December 31, 2017 and December 31, 2018 were examined. The Chapter is in the process of being audited. Harshwal & Company LLP have been engaged by the Chapter to perform a financial audit for the Chapter, and the Harshwal & Company LLP is in the process of requesting and receiving the items and information needed to perform the audit.	
◆ 2019 STATUS	Issue 13: Arizona state unemployment returns and contributions were not paid in a timely manner. RESOLVED
The 1 st quarter 2019 and the 2 nd quarter 2019 Arizona State Unemployment returns (SUTA report) were examined. The payments for each of these quarters were traced to the bank statement and the payments and returns were filed in a timely manner. The Chapter Officials review the quarterly reports.	

<p style="text-align: center;">◆</p> <p>2019 STATUS</p>	<p>Issue 14: Quarterly Federal payroll reporting was not filed timely and the monthly Federal tax deposits were not paid timely. RESOLVED</p>
<p>The monthly deposits required for the six-month review period were traced to the bank statement and are being transmitted in a timely manner. The 2019 1st and 2nd quarter 941 reports were examined and were submitted in a timely manner to the IRS. The Chapter Officials periodically review the quarterly reports.</p>	
<p style="text-align: center;">◆</p> <p>2019 STATUS</p>	<p>Issue 15: Checks were issued before fund approval forms were signed. RESOLVED</p>
<p>Of the twenty (20) checks examined, the fund approval forms were signed prior to or on the same date as the checks were signed.</p>	