

# **OFFICE OF THE AUDITOR GENERAL**

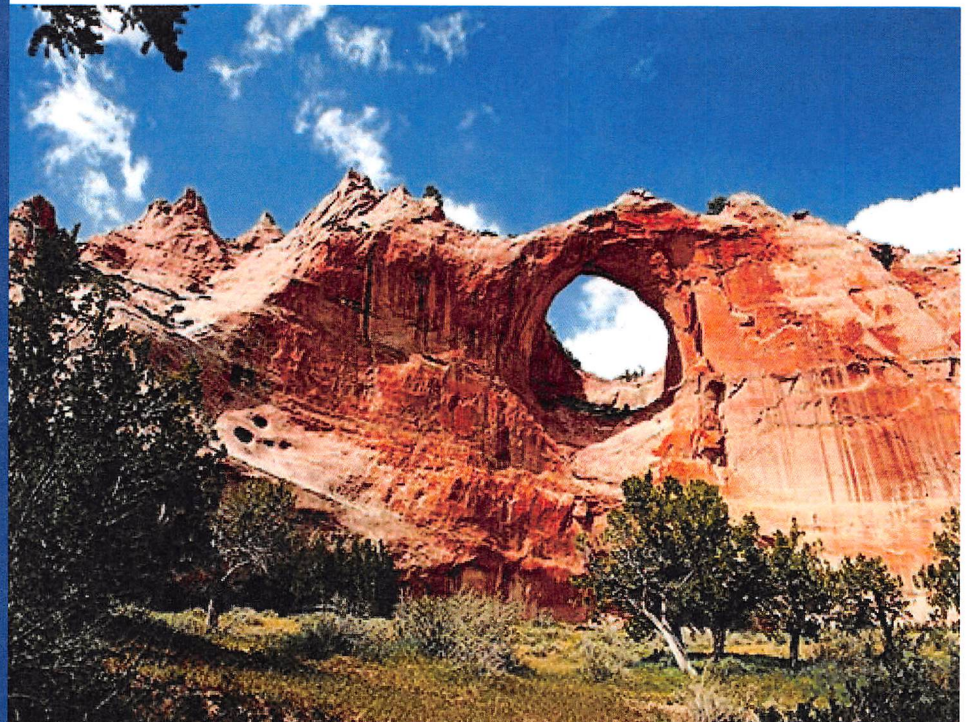
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## **The Navajo Nation**

### **A Special Review of Round Rock Chapter**

**Report No. 19-32  
September 2019**

**Performed by:  
Jasmine Jishie, Associate Auditor  
DeWayne Crank, Associate Auditor  
Karen Briscoe, Principal Auditor**





September 30, 2019

Kellywood Harvey, President  
**ROUND ROCK CHAPTER**  
P.O. Box 10  
Round Rock, AZ 86547

Dear Mr. Harvey:

The Office of the Auditor General herewith transmits Audit Report No. 19-32, A Special Review of the Round Rock Chapter. The main audit objective was to determine whether internal controls are functioning as designed to ensure the Chapter spent funds in accordance with Navajo Nation and Chapter policies and procedures. During the audit period of July 1, 2018 to June 30, 2019, \$311,076 of chapter funds were disbursed. Our review revealed control deficiencies and as a result, the Round Rock Chapter cannot provide reasonable assurance it complies with policies and procedures. The following issues were identified:

- Finding I: Lack of controls over heavy equipment rental activities has led to expensive repairs for the Chapter.
- Finding II: Professional services totaling \$60,427 were not procured competitively nor secured with a properly executed contract.
- Finding III: Sensitive files were not routinely backed up.
- Finding IV: Unauthorized check signers were on the bank signature authorization form.
- Finding V: Travel requests were not approved and expenditures were not supported with documentation.
- Finding VI: Eligibility for housing assistance and completion of projects were not verified by the Chapter.
- Finding VII: Accounts Maintenance Specialist had complete control over the accounting system with no controls.

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 contact our office at (928) 871-6303.

Sincerely,

Helen Brown, CFE, Principal Auditor  
Delegated Auditor General

Attachment

xc: Paul Jim, Vice President  
Ramona Rogers, Secretary/Treasurer  
Gayla James, Community Services Coordinator  
Carl Slater, Council Delegate-Elect  
**ROUND ROCK CHAPTER**  
Sonlatsa Jim-Martin, Acting Department Manager II  
Edgerton Gene, Senior Program & Project Specialist  
**ADMINISTRATIVE SERVICE CENTER/DCD**  
Chrono

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## REVIEW RESULTS

### **Finding I: Lack of controls over heavy equipment rental activities has led to expensive repairs for the Chapter.**

**Criteria:** Property Management Policies and Procedures, Section IV.A, states the Chapter staff and Chapter Officials shall be charged with the responsibility to ensure the safekeeping of all Chapter property. In the event of loss, the Chapter staff and officials shall be prepared to show that precautionary actions were taken to guard against loss, damage and theft.

**Condition:** The Chapter did not establish and implement controls to safeguard the rental of heavy equipment (tractor and backhoe) to community members. The Chapter developed policies and procedures for the rental of heavy equipment, but never adopted the policy. Instead the Accounts Maintenance Specialist had sole authority over heavy equipment rental activities and as a result, she:

1. Allowed some renters to borrow equipment without an agreement to hold the renter responsible for the proper use, safekeeping, and any potential damages.
2. Allowed community members to rent heavy equipment without requiring the renter to obtain general liability insurance to cover any unforeseen damages by the user.
3. Did not verify that the renter had knowledge of how to operate the heavy equipment (i.e. license or certificate).

The lack of controls led to expensive repairs costing the Chapter \$4,150 when the backhoe broke down while in use by a renter. Thereafter, the backhoe was rented to another community member and it broke down again but has not been repaired due to high repair costs.

**Effect:** In the event that a community member causes damage to the heavy equipment or injury to another person, the Chapter will be financially liable for all costs incurred by the incident.

**Cause:**

- The Chapter did not take precautionary measures when allowing community members to rent heavy equipment.
- The Chapter officials allowed the Accounts Maintenance Specialist to manage rental activities without supervision.
- The Chapter officials erroneously believed that the Chapter's insurance coverage obtained by Navajo Nation Risk Management also covered community members who rented Chapter equipment.

**Recommendations:**

1. The Chapter staff and officials should finalize and adopt the heavy equipment rental policy.
2. The Chapter staff and officials should create a rental agreement that includes the roles and responsibilities of the renter.

3. The Chapter staff should require all renters to complete a rental agreement form before use.
4. The Chapter should hire a qualified heavy equipment operator to perform all work requested by the community members.

**Finding II: Professional services totaling \$60,427 were not procured competitively nor secured with a properly executed contract.**

*Issue: Professional services were not procured competitively.*

- Criteria:** Navajo Nation Procurement Rules and Regulations, Section V.D, requires the bidding process to be followed to ensure the selection of the best qualified contractors and vendors at competitive prices.
- Condition:** During the 12-month audit period, the Chapter obtained professional services from three vendors costing \$60,427 without going through the defined bidding process.
- Effect:** The Chapter may have paid higher prices for services by providers who may not have been the most qualified vendors.
- Cause:**
- The Accounts Maintenance Specialist and Chapter President chose to directly hire the vendors they identified because it was more convenient and quicker than waiting for vendors to provide quotations/bids.
  - The Accounts Maintenance Specialist and Chapter officials did not consult with the Administrative Service Center or Navajo Nation Department of Justice for the proper bidding process.
- Recommendations:**
1. The Chapter staff should comply with Navajo Nation Procurement Rules and Regulation by soliciting bids from various vendors in the procurement of services.
  2. The Chapter should establish a selection committee to evaluate the bids and select the most qualified vendors.

*Issue: Professional services were not secured with a properly executed contract.*

- Criteria:** 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 if the Chapter is not Local Governance certified.
- Condition:** During the 12-month audit period, the three vendors provided five professional services. Four of the five services obtained by the Chapter were not under contract. One service had a contract but it was not reviewed and approved through the Navajo Nation review process. Therefore, the validity of this contract is questionable.

In another instance, the Chapter hired a surveyor to survey land in the community without a proper contract and a year later, the Chapter has not received a survey report from the vendor.

**Effect:** In the absence of Navajo Nation review, the Chapter puts itself and the Navajo Nation at risk for potential liability due to contractual disputes or lack of contract deliverables.

**Cause:**

- The Accounts Maintenance Specialist did not know that all services required a contract and review by the Navajo Nation. She thought that only services costing over \$50,000 would have to go through a contract.
- The Accounts Maintenance Specialist or Chapter officials did not consult with the Administrative Service Center or Navajo Nation Department of Justice for contractual service agreements.

**Recommendations:**

1. The Chapter staff should ensure that all services are procured through a contract that has been reviewed and approved by the Navajo Nation.
2. The Chapter staff and officials should consult with the Administrative Service Center or Department of Justice when executing contracts to ensure compliance with Navajo Nation laws and regulations.

### **Finding III: Sensitive files were not routinely backed up.**

**Criteria:** Records Management Policies and Procedures, Section IV, requires all confidential, protected and essential records to be properly cared for at all times at the Chapter. Further, Section X, requires electronic files to be backed up to a separate memory device and stored in a secure location. Lastly, Section V, requires the Chapter officials to ensure that the Chapter administration is adequately complying with the Chapter's established Records Management Policies and Procedures.

**Condition:** Sensitive files containing personnel, payroll and financial assistance records are stored on the reception's desktop computer without proper access controls. During our site visit, we observed the reception's desk was located in the chapter's meeting hall with open access to anyone. After discussing these concerns about the reception's desktop, the Chapter subsequently moved the desktop to a secured room and established a password for the computer.

Although the desktop is now secured, there is no indication the Chapter routinely backs up sensitive files stored on the desktop computer.

**Effect:** Without backups, there is a risk for data loss in the event of a computer crash or theft. This data loss can disrupt chapter operations and services.

- Cause:
- While converting to an electronic filing system, the Accounts Maintenance Specialist did not consider the importance of securing the electronic files with backups on an external drive.
  - In the absence of a Community Services Coordinator, the Chapter officials did not monitor the Accounts Maintenance Specialists' management of the chapter records.
- Recommendations:
1. The Accounts Maintenance Specialist should create a backup schedule to make sure electronic files are routinely backed up and maintain the external drive in a secure location.
  2. The Chapter officials should review the backup schedule on a weekly basis to make sure the Chapter staff is complying with the Records Management Policies and Procedures.

**Finding IV: Unauthorized check signers were on the bank signature authorization form.**

Criteria: Local Governance Act 26 N.N.C., Subsection 1001 B.3.L, requires the Secretary Treasurer to co-sign all Chapter checks along with the Chapter Community Services Coordinator. In the event that the Secretary Treasurer is unavailable, the Chapter President or Vice President may co-sign Chapter checks. Fiscal Policies and Procedures, Section VII.D, requires the Chapter to change the authorized bank signers by Chapter resolution and to immediately notify the bank.

Condition: In 2016, the Chapter officials obtained community approval to add the Accounts Maintenance Specialist as an authorized check signer for the Chapter's bank account. However, the Local Governance Act does not authorize the Accounts Maintenance Specialist to be a check signer. Nonetheless, during the audit period, the Accounts Maintenance Specialist signed 12 checks and one of these checks was payable to herself. Furthermore, the former Community Services Coordinator, who resigned in December 2017, was still an authorized check signer with the bank as of August 2019.

Effect: Without proper oversight, unauthorized check signers can transfer funds, issue payments, and conduct other bank business that may result in theft or fraud.

Cause:

- The Accounts Maintenance Specialist and Chapter officials misunderstood that the Accounts Maintenance Specialist had to be an authorized bank signer to conduct bank business such as making bank deposits, viewing bank activities, and retrieving bank statements.
- The Accounts Maintenance Specialist prepared a letter to the bank to remove the former Community Services Coordinator from the bank signature authorization form, but it was not issued to the bank because the Chapter officials never followed through with obtaining community approval through chapter resolution to support the letter.

- Recommendations:
1. The Community Services Coordinator and Chapter officials should immediately remove the Accounts Maintenance Specialist and former Community Services Coordinator from the Chapter’s bank signature authorization form.
  2. The Community Services Coordinator and Chapter officials should immediately notify the bank, through Chapter resolution, of any changes in authorized bank signers.
  3. The Community Services Coordinator and Chapter officials should adhere to bank account policies and procedures and the Local Governance Act.
  4. The Chapter staff should maintain an updated bank signature authorization form on file.
  5. The Community Services Coordinator should monitor the bank accounts via online access to detect any unauthorized activity.

**Finding V: Travel requests were not approved and expenditures were not supported with documentation.**

Criteria: Fiscal Policies and Procedures, Section VII.I, requires all travel requests to be approved prior to travel. Travelers are required to submit expense reports, trip reports and receipts to support travel expenses. The Accounts Maintenance Specialist is required to maintain all travel documents on file.

Condition: For the 12-month audit period, the Chapter had 45 travel expenditures totaling \$18,227 of which 29 (\$12,800) were examined. 16 of 29 (\$6,738) travel expenditures did not have files so we were unable to examine these files. For the remaining 13 travel expenditures, we noted the following exceptions:

Type of Exception	No. of Exceptions
Travel requests were not approved prior to travel.	4 of 13 (31%) \$2,315
Travel expenses were not supported with one or more of the following: original expense reports, trip reports, lodging receipts and mileage reports.	4 of 13 (31%) \$2,567
Supporting documents, such as expense reports, trip reports, and mileage reports were not approved by an authorized individual.	12 of 13 (92%) \$6,006

Effect: The Chapter cannot provide assurance that \$12,744 was expended for legitimate travel activities or for travel that benefitted the Chapter.

- Cause:
- The Vice President, as the direct local supervisor, did not ensure the Accounts Maintenance Specialist enforced the travel policies.
  - The Chapter officials signed travel checks without verifying support documentation.



- Recommendations:
1. The Community Services Coordinator should approve travel authorization forms prior to travel.
  2. The Chapter staff should not process travel reimbursements until travelers submit all required documents.
  3. The Community Services Coordinator should review and approve all travel documents prior to signing travel checks.
  4. The Chapter officials should verify that all documents are attached and approvals were completed prior to co-signing travel checks.
  5. The Accounts Maintenance Specialist should file all travel documents within two days of check issuance.

**Finding VI: Eligibility for housing assistance and completion of projects were not verified by the Chapter.**

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

Criteria: Chapter housing policies requires applicants to have evidence of home ownership to be eligible for housing assistance.

Condition: For the 12-month audit period, the Chapter awarded \$17,673 to a total of 19 recipients. All 19 recipients did not have proof of home ownership on file contrary to established policies.

Effect: The Chapter awarded recipients who may not have been eligible for housing assistance.

- Cause:
- The Accounts Maintenance Specialist did not use the check-off list for ensuring all required documents were on file.
  - No one independent of the Accounts Maintenance Specialist verified that all required documents were on file prior to approving assistance.

- Recommendations:
1. The Community Services Coordinator and Accounts Maintenance Specialist should use its check off list to show verification of home ownership.
  2. The Community Services Coordinator and Chapter officials should review the checklist and support documentation to verify applicants have home ownership documents prior to approving their assistance.

*Issue 2: The Chapter did not verify that housing assistance projects were completed.*

Criteria: Chapter Housing Policies requires recipients to complete housing assistance projects within 30 days. Thereafter, the Chapter will inspect the home for completion and close out.

Condition: 19 (100%) recipient files did not have any evidence that the Chapter inspected housing assistance projects to verify their completion. The Chapter purchased building materials to assist these recipients, but did

not track the materials to make sure they were used to complete the housing projects.

Effect: There is risk that building materials for all 19 housing projects totaling \$17,673 were used for purposes other than housing assistance.

Cause:

- Without a Community Services Coordinator to assist with Chapter operations, the Accounts Maintenance Specialist was unable to make site visits to the recipient homes to verify the completion of housing assistance projects.
- The Accounts Maintenance Specialist also did not use the temporary employees to assist with completing this task.

Recommendations:

1. The Community Services Coordinator should schedule site visits to inspect the housing recipient homes to verify 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 inspections of the housing recipient homes and prepare inspection reports of what was completed.
3. The Chapter officials should review the inspection reports to confirm building materials were used for their approved purpose.

**Finding VII: Accounts Maintenance Specialist had complete control over the accounting system with no controls.**

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. Local Governance Act, Section 1001, requires the Secretary Treasurer to monitor the maintenance of an adequate accounting system to ensure accountability of all funds and expenditures.

Condition: The Accounts Maintenance Specialist had total control over the Chapter's accounting system. There was no independent reviews because the Chapter did not have a Community Services Coordinator and the Secretary/Treasurer did not monitor the accounting system. The Accounts Maintenance Specialist performed the following tasks on a regular basis and without oversight:

1. Creating vendor and employee profiles.
2. Entering and posting transactions (payments, receipts, and budgets).
3. Generating checks.
4. Making adjusting entries.
5. Reconciling the accounting system to the bank.
6. Accessing the online bank account.

Since there was no independent review, the following issues were noted:

1. No independent review of bank reconciliations to verify its accuracy.
2. Terminated employees were not deactivated in the accounting system.
3. The budget for internally generated revenue totaling \$5,346 was not posted.
4. Recorded fixed assets totaling \$374,000 could not be supported with documentation.

**Effect:** The Chapter is at risk for accounting errors and unauthorized activities going undetected.

**Cause:**

- Although the Chapter officials and Administrative Service Center were aware that the Accounts Maintenance Specialist was solely managing the accounting system, neither the Chapter officials nor the Administrative Service Center stepped in to review the work of the Accounts Maintenance Specialist.
- The Chapter officials do not know how to review and monitor the Chapter accounting activities.

**Recommendations:**

1. The Community Services Coordinator should review the accounting system against source documents to ensure accurate posting of transactions, bank reconciliation and proper deactivation of former employee profiles.
2. The Chapter officials should obtain training from the Administrative Service Center to understand how to review and identify discrepancies in financial reports.
3. The Chapter officials and the Administrative Service Center should review the accounting system for accuracy in the absence of the Chapter administrative staff.

## **CONCLUSION**

Lack of controls over heavy equipment rental activities has led to expensive repairs for the Chapter. Professional services totaling \$60,427 were not procured competitively and secured with a properly executed contract. Sensitive files were not routinely backed up. Unauthorized check signers were on the bank signature authorization form. Travel requests were not approved and expenditures were not supported with documentation. Eligibility for housing assistance and completion of projects were not verified by the Chapter. The Accounts Maintenance Specialist had complete control over the accounting system with no controls.

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 seven findings identified in the audit report.

## **BACKGROUND**

The Office of the Auditor General has conducted a Special Review of the Round Rock Chapter for the 12-month period ending June 30, 2019.

The Round Rock 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 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 \$ 311,076 for the 12-month period ending June 30, 2019.

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 Center. The Accounts Maintenance Specialist has been at the Round Rock Chapter since 2010. During the review period the Chapter did not have a Community Services Coordinator since December 2017. However, the Chapter hired a Community Services Coordinator in July 2019. The Chapter was without a Community Services Coordinator for one and half years prior to the current Community Services Coordinator.

### **Objective, Scope, and Methodology**

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

The following sub-objectives were established to address the main objective for this audit:

- Determine if controls are in functioning as designed to ensure equipment rental activities are proper.
- Determine if controls are functioning as designed to ensure professional services are competitively procured and a contract is executed with review and approval.
- Determine if controls are functioning as designed to ensure the records management of sensitive files maintained on a computer system are safeguarded from loss by backing up files and storing it in a secure location.
- Determine if controls are functioning as designed to ensure the Chapter's bank account only allows for authorized individuals to sign checks.
- Determine if controls are functioning as designed to ensure travel is approved and expenses are supported with documentation.
- Determine if controls are functioning as designed to ensure proper verification of housing assistance eligibility and completion of home projects.
- Determine if controls are functioning as designed to ensure sufficient segregation of duties in the management of the accounting system.

The audit covers activities for the 12-month period of July 1, 2018 through June 30, 2019.

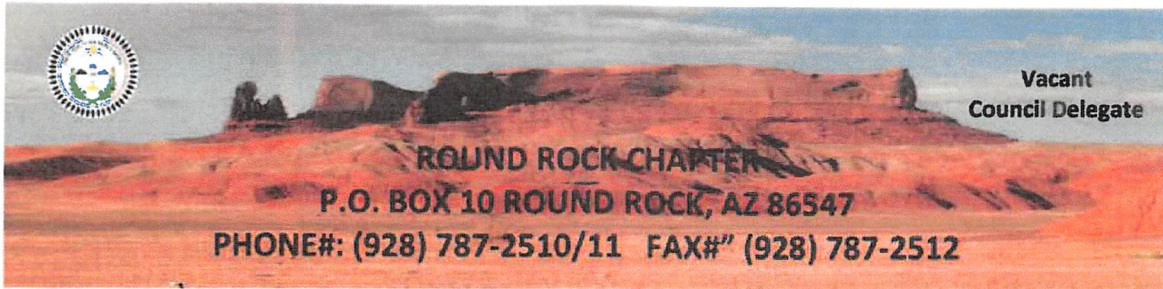
In meeting the audit objectives, we interviewed the Chapter administration and officials, observed Chapter operations, and examined available records. More specifically, we tested samples of expenditures for internal controls and compliance requirements by using a non-statistical, judgmental method.

### **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 Round Rock Chapter officials and administration for their cooperation and assistance throughout the audit.


# **CLIENT RESPONSE**



**MEMORANDUM**

**TO:** Helen Brown, Principal Auditor/Delegated Auditor General  
Navajo Nation Office of Auditor General



**FROM:**   
Gayla James, CSC  
Round Rock Chapter

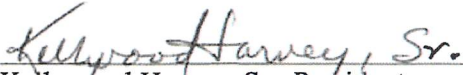
**DATE:** September 30, 2019

**SUBJECT:** Special Audit Review – Round Rock Chapter

Please accept this memorandum as an acknowledgement and in receipt of your final draft to the Special Review of Round Rock Chapter dated September 17, 2019. Round Rock Chapter will begin the process of a Corrective Action Plan based on the recommendations made by your office within thirty (30) days.

If you should have any questions, please do not hesitate to contact the Round Rock Chapter at (928) 787-2510/2513 or by email: [roundrock@navajochapters.org](mailto:roundrock@navajochapters.org). Thank you.

**CONCURRENCE:**

  
Kellywood Harvey, Sr., President  
Round Rock Chapter

**XC:** Chapter Officials (3)  
Johnny Johnson, Dept. Manager II, ASC/DCD  
Edgerton Gene, Chinle SPPS, ASC/DCD  
Karen Briscoe, Principal Auditor  
Jasmine Jishie, Associate Auditor

Kellywood Harvey, Sr.  
PRESIDENT

Paul Jim  
VICE PRESIDENT

Ramona Rogers  
SECRETARY/TREASURER

Reeder Descheny  
DEL. GRAZING OFFICIAL

Gayla James  
C.S. COORDINATOR

Mary L. John  
A.M. SPECIALIST