

## **OFFICE OF THE AUDITOR GENERAL**

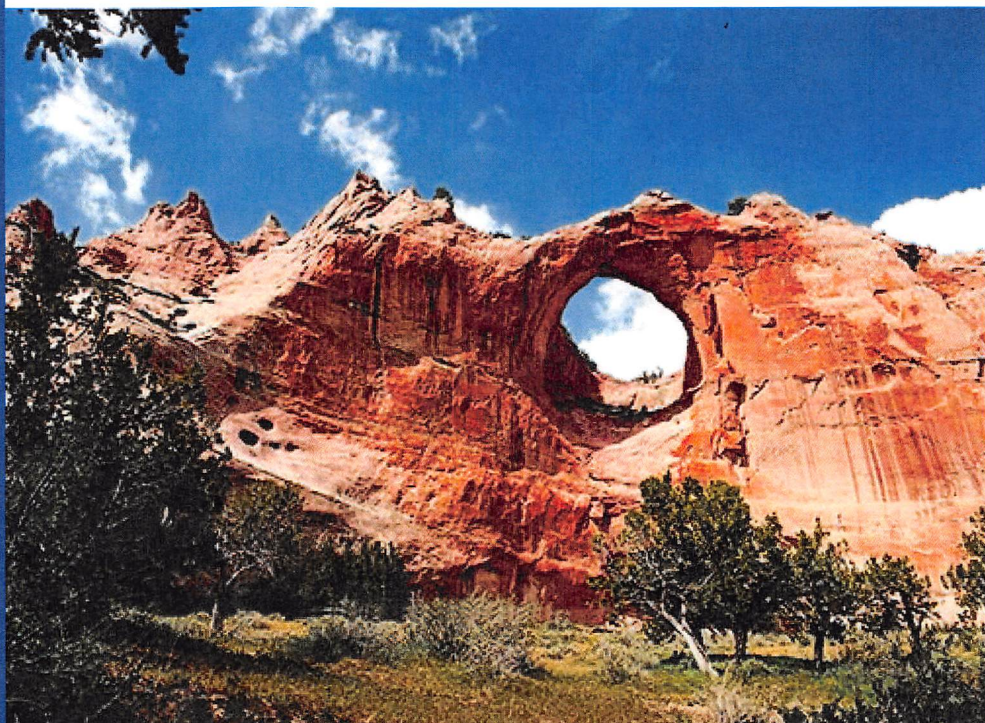
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### **The Navajo Nation**

#### **A Special Review of Red Mesa Chapter**

**Report No. 19-34  
September 2019**

**Performed by:  
Stacy Manuelito, Senior Auditor  
Kimberly Jake, Associate Auditor  
Marcale Kaskalla, Associate Auditor**





October 3, 2019

Herman Farley, President  
**RED MESA CHAPTER**  
P.O. Box 422  
Montezuma Creek, UT 84534

Dear Mr. Farley:

The Office of the Auditor General herewith transmits Audit Report No. 19-34, A Special Review of the Red Mesa 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 laws, rules and regulations and Chapter policies and procedures. During the audit scope of July 1, 2018 to June 30, 2019, \$206,240 of Chapter funds were disbursed. Our review revealed control deficiencies and as a result, the Red Mesa Chapter cannot provide reasonable assurance it complies with policies and procedures. The following issues were identified:

- FINDING I: Travel expenses lacked proper approval and supporting documentation.
- FINDING II: Chapter property is not routinely inventoried and lack identification tags.
- FINDING III: \$390,000 of fixed assets reported in the balance sheet cannot be supported with documentation.
- FINDING IV: The Chapter did not properly verify eligibility of housing assistance recipient.
- FINDING V: The Chapter cannot fully account for building materials awarded to a housing recipient.

Detailed explanations of the audit issues can be found in the body of the report. The audit 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

xc: Marilyn Holly, Vice-President  
Marlene Dee-Ben, Secretary/Treasurer  
Minnie John, Community Service Coordinator  
Charlaine Tso, Council Delegate  
**RED MESA CHAPTER**  
Sonlasta Jim-Martin, Acting Department Manager II  
Eliza-Beth Washburne, Senior Program & Project Specialist  
**ADMINISTRATIVE SERVICES CENTER/DCD**  
Chrono

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**REVIEW RESULTS**

**FINDING I: Travel expenses lacked proper approval and supporting documentation.**

**Criteria:** Five Management System (FMS) Fiscal Policies and Procedures, Section VII.I, requires the Accounts Maintenance Specialist to prepare the travel authorization and forward the travel authorization for signature (i.e. approval) to the Community Services Coordinator. Travelers are required to submit expense reports, trip reports, and receipts to support travel expenses. The Community Services Coordinator reviews travel documents upon completion of travel and the Accounts Maintenance Specialist issues the travel checks.

**Condition:** The Chapter administration did not comply with the travel policies. Chapter travel expenditures totaled \$21,972 for the audit period. 32 travel authorizations totaling \$12,782 (58% of total amount) were examined. However, supporting documents for 15 of 32 travel authorizations totaling \$6,673 for the Community Service Coordinator, former Accounts Maintenance Specialist, current Chapter President and Vice President were not found on file.

The remaining 17 travel authorizations had the following exceptions.

Type of Exception	No. of Exceptions and Amounts
Travel requests were not authorized prior to travelers going on travel.	5 of 17 (29%) \$1,545
Travel expense reports were incomplete.	11 of 17 (65%) \$4,405
Travel reimbursement documents (i.e. trip reports and mileage reports) were incomplete and unapproved.	13 of 17 (76%) \$5,375

**Effect:** Unauthorized travel poses a risk of improper use of Chapter funds. Travelers could incur expenses unrelated to Chapter business and receive reimbursements based on erroneous travel claims.

**Cause:**

- The Community Services Coordinator is not verifying travel authorizations are accurate and complete prior to approving travel requests.
- The Community Services Coordinator is not verifying travel is supported with travel documentation such as travel expense report, trip report, and mileage report, sign-in sheet, agendas, and off reservation travel approval, prior to approving travel reimbursement.

- The Chapter officials are signing travel checks for travel advances and travel reimbursements without first verifying the travel documents were properly reviewed and approved.
- Recommendations:
1. The Community Services Coordinator should review the travel authorization for accuracy before approving travel requests and any travel advances.
  2. The Community Services Coordinator should review the supporting documents such as travel expense report, trip report, and mileage report, sign-in sheet, agendas, off reservation travel for completeness and signed off for approvals.
  3. The Chapter officials should review the supporting documentation for proper approval before co-signing travel checks.

**FINDING II: Chapter property is not routinely inventoried and lack identification tags.**

Criteria: FMS Property Management Policy and Procedures, Section VII.A, requires the Chapter to maintain a complete, detailed and accurate identification of all Chapter properties at all times and to ensure all property is tagged with identification numbers. Section V, assigns the Chapter Community Services Coordinator the task of ensuring the inventory is current and complete.

Condition: The Chapter administration does not perform annual physical counts and inspections to update its property inventory. Rather, the practice is to only add new purchases to the existing inventory. Since there is no physical verification of the property, pertinent information such as property numbers, acquisition cost, acquisition date, and condition about existing property is not updated. Therefore, the property inventory is unreliable.

A sample of nine property items was physically inspected and all did not have property identification tags. The Community Services Coordinator acknowledged that the property items have not been tagged with identification numbers.

Effect: The Chapter cannot fully account for its property and equipment. Chapter property with a total value of \$18,294 is at risk of being stolen, destroyed, or disposed of without detection. There is also a risk the Chapter's property insurance is being under stated which could result in insufficient coverages for the Chapter.

Cause:

- The Community Services Coordinator does not prioritize property management for the Chapter.
- The Chapter officials are not monitoring the Community Services Coordinator activities to ensure the Chapter is complying with property policies and procedures.

Recommendations: 1. The Community Services Coordinator should complete physical counts and inspections of the Chapter property each year prior to the new

fiscal year and update the Chapter property inventory with complete information.

2. The Accounts Maintenance Specialist should purchase pre-numbered identification tags available on the market, affix the tags to the property items, and record the identification numbers on the property inventory.
3. The Chapter officials should periodically inspect property items to ensure they have identification tags.

**FINDING III: \$390,000 of fixed assets reported in the balance sheet cannot be supported with documentation.**

- Criteria: FMS 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 balance sheet. The Chapter is required to establish internal controls to ensure that accounting data is accurate. FMS Property Management Policy and Procedures, Section VIII.B.2., assigns the Accounts Maintenance Specialist the task of ensuring all pertinent records and documentation of all Chapter property are kept on file including invoices, warranties, and titles.
- Condition: The Chapter does not have records to support the \$390,000 of fixed assets reported in the balance sheet as of August 2019. This amount was reported by the former Accounts Maintenance Specialist.
- Effect: Without original documents, the Chapter cannot provide reasonable assurance the fixed assets reported is accurate. This poses a risk for unreliable balance sheet which will hinder the Chapter in making informed financial decisions.
- Cause:
- The Community Services Coordinator has been unable to locate the records that would support the fixed assets amount recorded by the former Accounts Maintenance Specialist. Without records, how the Accounts Maintenance Specialist arrived at the value cannot be determined.
- Recommendations:
1. The Chapter staff should maintain records for Chapter fixed assets to support the amount reported in the balance sheet.
  2. The Community Services Coordinator should procure an appraiser to value the Chapter's fixed assets.
  3. The Administrative Service Center should verify that the fixed assets value reported in the balance sheet can be supported with documentation.

**FINDING IV: The Chapter did not properly verify eligibility of housing assistance recipient.**

- Criteria: Chapter Housing Assistance Program Policy and Procedures, Article IV. requires housing applicants to be a member of the Navajo Nation with a census number, homesite lease, and the project must be located within Red Mesa Chapter service area. Required documents include: housing application, household income verification, map to property, quotes for material listing, memo of agreement, and release of information form.
- Condition: The Chapter awarded one housing recipient in the amount of \$1,619. The housing recipient did not have sufficient proof of documentation to support eligibility. Required documents such as Certificate of Indian Blood and Social Security cards for household, income verification, pictures, materials list, and ranking sheets were missing and could not be provided for review.
- Effect: Without proper verification, there is a risk the Chapter awarded a housing recipient who could be ineligible.
- Cause:
- The Chapter's housing assistance checklist for required documents is inconsistent with their own housing policy for required documents.
  - The Chapter officials did not confirm that the Chapter staff obtained supporting documents from applicants and the expenditures are allowable prior to signing checks for housing assistance.
- Recommendations:
1. The Community Services Coordinator should update the housing assistance checklist to make it consistent with the housing policies and procedures.
  2. 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.
  3. The Chapter officials should request for the housing applicant's folder to review and verify applicant's housing assistance documents are submitted, completed, and reviewed by the Community Services Coordinator and community approved prior to co-signing award check.

**FINDING V: The Chapter cannot fully account for building materials awarded to a housing recipient.**

- Criteria: Chapter Housing Assistance Program Policy and Procedures, Article XII. Monitoring and Reporting, requires that upon completion of each construction phase, an inspection shall be conducted before continuation of project. Phase of project shall be:
1. Footing
  2. Closed in rough wiring and plumbing
  3. Final inspection of completed project.



**Condition:** The one housing assistance recipient for the audit period was assisted with building materials totaling \$1,619. The Chapter temporary employees delivered the building materials directly to the home owner on July 8, 2019. According to the Community Services Coordinator, the project stopped when the Chapter exhausted its labor force budget. On August 22, 2019, a site visit by the auditors confirmed an incomplete project with various materials left unsecured at the residence. A physical count revealed 37 cement bags, 1 mesh roll, and 2 - 2' x 16' boards still on-site. The materials were left uncovered and exposed to the weather.

Despite the requirement for inspections during various project phases, no inspection reports were provided for this project by the Chapter staff. Therefore, the project continued without assurance proper work was performed and materials were used as intended. The current project status is unknown and it is unclear whether the remaining materials are sufficient to complete the project.

**Effect:** The building materials stored at recipient's residence is at risk for loss should the materials be stolen, misused or damaged.

**Cause:**

- The Chapter allowed for the materials to be delivered to the resident's location rather than storing the materials at the Chapter for proper safekeeping and accountability.
- The Chapter President and Vice-President did not involve themselves to monitor community projects.

**Recommendations:**

1. The Community Services Coordinator should retrieve building materials and return to Chapter premises.
2. The Chapter staff should complete a perpetual inventory for the remaining materials.
3. The Community Services Coordinator should inspect the project and determine whether the remaining materials are sufficient to complete the project. If the inspection reveals missing materials, the Community Services Coordinator should take appropriate action to address the discrepancy.
4. Once additional funds become available, the Chapter should hire temporary workers to complete the project.



## **CONCLUSION**

Controls are not functioning as designed within the travel, property and housing processes which needs to be strengthened. The Chapter's travel requests and expense reimbursements were not properly approved. The Chapter's property inventory is incomplete and property items are missing identification tags. Lastly, the Chapter's housing assistance is missing required approvals and documentation for a housing recipient. Overall, these control deficiencies pose a high risk of misuse of Chapter funds and lack of accountability for Chapter assets.

## **BACKGROUND**

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

The Red Mesa 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 Center. During the review period, the Accounts Maintenance Specialist resigned in May 2019.

The majority of the Chapter resources are provided through appropriations from the Navajo Nation central government. These appropriations are intended to fund direct and indirect services at the local Chapter government level. The direct services funds are considered restricted funds with specific intended purposes. The Chapter also generates internal revenues from fees collected for providing miscellaneous services.

The Chapter expended a total of \$206,240 for the 12-month period ending June 30, 2019.

Since the Red Mesa Chapter boundary also extends into the State of Utah, the Chapter receives funding from Utah State for housing projects to benefit and be utilized by the Utah Navajo residents. The Utah State fund is administrated by the State, so these funds were excluded from this review. Therefore, this review focused on funds allocated by the Navajo Nation.

## **OBJECTIVE, SCOPE, AND METHODOLOGY**

The Office of the Auditor General conducted a Special Review of the Red Mesa 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 audit objective for this audit:

- 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 the Chapter has a comprehensive property inventory and property is tagged with identification numbers.
- Determine if controls are functioning as designed to ensure the Chapter's fixed assets values are supported with documentation.
- Determine if controls are functioning as designed to ensure the verification of eligibility for housing assistance.
- Determine if controls are functioning as designed to ensure projects are inspected and building materials were used as intended for housing assistance.

The audit covers activities for the 12-month period of July 1, 2018 to 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 Red Mesa Chapter officials and administration for their cooperation and assistance throughout the audit.

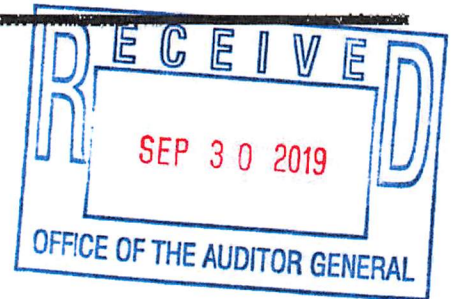
# **CLIENT RESPONSE**





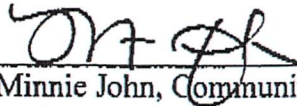
**RED MESA CHAPTER**  
Red Mesa, Navajo Nation, Utah

September 27, 2019



**MEMORANDUM**

**TO :** Helen Brown, Delegated Auditor General  
Office of the Auditor General

**FROM :**   
Minnie John, Community Services Coordinator  
Red Mesa Chapter

**SUBJECT:** Chapter's Response to Audit

The Navajo Nation Office of the Auditor General staff performed a preliminary phase of an audit with Red Mesa Chapter. The Auditors developed matters that are based on an assessment done regarding information obtained during the auditing process with Red Mesa Chapter.

The Red Mesa Chapter staff and officials appreciate the staff performing the chapter audit scope from July 1, 2018 to June 30, 2019. The chapter learned of several deficiencies that needed to be corrected, including to provide reasonable assurance to comply with the Five Management System (FMS) Navajo Nation Title 26. The chapter officials and staff will be proceeding to correct the following areas together by reviewing all documents, inspection of all chapter property, and monitoring chapter projects.

The chapter will also, properly verify eligibility of housing assistances recipient by working together with housing clients. This will be done by making sure all documents are on file at the chapter, including all other required documents; housing application, household income verification, homesite lease, and quotes for material listing. The Chapter Community Services Coordinator and chapter official will participate in completing perpetual inventory for building materials and making sure all housing materials will be accountable at the chapter warehouse.

**Finding I:** Travel expenses lacking proper approval and supporting documentation.

1. An internal control checklist has been created and will be followed prior to having travel authorization documents and are approved. Proper approval of all travel advances.
2. All travel authorization documents will be filed immediately in the traveler's vendor files. Once travel is completed, proper documentation of trip reports and expenses will be submitted and filed with Travel Authorization.

**Attached: (Exhibit Finding I-Page 1 & 2)**

**Finding II: Chapter Property is not routinely inventoried and lacks identification tags.**

1. The CSC has developed a plan of action to complete the physical inventory for Fiscal Year 2019 and so forth.
2. Property tags will be ordered and affixed to all property on the chapter property inventory listing.
3. The Underwriters' Exposure Summary will be submitted for the Chapter.
4. All physical inventories will be completed twice a month. Perpetual inventory will be kept and maintained for non-capital expendable items such as housing materials.

**Finding III: \$390,000 of fixed assets reported in the balance sheet cannot be supported with documentation.**

1. The Chapter will develop and maintain a fixed assets files for all property valued at \$1,000.00 or more. Chapter will use the fixed assets management checklist developed to have chapters maintain fixed assets.
2. The Chapter will procure the services of an appraiser to value the Chapter's fixed assets.

**Attached: (Exhibit Finding III-Page 1)**

**Finding IV: The Chapter did not properly verify eligibility of housing assistance recipient.**

1. The CSC will ensure that the housing policies and procedures are adhered to when processing housing applications, especially the ranking and scoring system. There are additional internal control documents which ASC has provided to the Chapter to ensure that proper documentation are practiced.
2. The CSC and Chapter Officials will be attending the Housing assistance training scheduled for November 13, 2019 for assistance and training. The training is being sponsored by Navajo Nation Division of Community Development Administrative Service Center (ASC).
3. The Chapter will be conducting perpetual inventory for all housing materials purchase. The housing material will be delivered the Chapter warehouse and assigned to the client's work site as needed to complete housing projects.

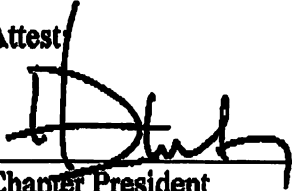
**Attached: (Exhibit Finding III-Page 1-4)**

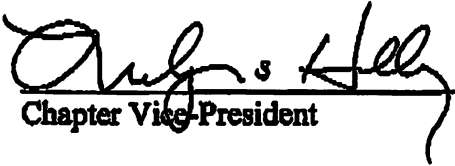
**Finding VI: The Chapter housing discretionary budget is contrary to the Navajo Nation Budget Instruction Manual.**

1. The Chapter will review the housing policies and procedures and submit for reauthorization through a chapter resolution. The Chapter will follow and use the ranking and scoring system to ensure fair and equitable assistance for all recipients. In this revision, the CSC and chapter officials will ensure that the policies and procedures are in compliance with the Navajo Nation Budget instructions Manual.
2. The Chapter will have their own housing policies and procedures which is compliant to the Navajo Nation Budget Instructions Manual and the standard (TCDC) housing policies. These policies will be applied only for funds allocated through the Navajo Nation budget process. The Utah funds housing policies and procedures will remain separate.

If you have any questions, please let us know.

Attest

  
\_\_\_\_\_  
Chapter President

  
\_\_\_\_\_  
Chapter Vice-President

\_\_\_\_\_  
Chapter Secretary/ Treasurer

Cc: File