



OFFICE OF THE AUDITOR GENERAL

The Navajo Nation

Special Review of the Indian Wells Chapter



**Report No. 20-10
September 2020**

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

September 29, 2020

Benson Stewart, President
Indian Wells Chapter
P.O. Box 3049
Indian Wells, AZ 86031

Dear Mr. Stewart:

The Office of the Auditor General herewith transmits Audit Report No. 20-10, A Special Review of the Indian Wells 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 October 1, 2018 to September 30, 2019, \$186,989 of Chapter funds were disbursed. Our review revealed control deficiencies and as a result, the Indian Wells Chapter cannot provide reasonable assurance it complies with policies and procedures. The following issues were identified:

- Finding I: Not all fixed assets are reported on the balance sheet.
- Finding II: Property items are not tagged with identification numbers.
- Finding III: Financial transactions are not completely and accurately posted in the accounting system.
- Finding IV: Cash receipts are not safeguarded and deposited in a timely manner.
- Finding V: Not all funds have approved budgets in place.
- Finding VI: The Chapter cannot demonstrate that housing assistance projects are complete.
- Finding VII: There are no controls in place to safeguard building materials against loss, damage, and theft.
- Finding VIII: The Chapter does not competitively procure goods and services.
- Finding IX: Travel requests, advances and reimbursements lacked prior approval.
- Finding X: The Accounts Maintenance Specialist approved housing assistance for a family member.

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, CFE, Principal Auditor
Delegated Auditor General

xc: George John, Vice President
Nora John, Secretary/Treasurer
Rena Chase Begay, Community Services Coordinator
Elmer P. Begay, Council Delegate
INDIAN WELLS CHAPTER
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REVIEW RESULTS

Finding I: Not all fixed assets are reported on the balance sheet.

- Criteria:** Fiscal Policies and Procedures, Section VII.F., requires the Accounts Maintenance Specialist to record the total fixed assets value to the balance sheet based on accurate and reliable inventory records. If there are no documents to show the cost of the assets, the Community Services Coordinator should determine the fair market value of the asset.
- Condition:** The balance sheet reported fixed assets valued at \$2,600. However, the property inventory has a total fixed assets value of \$866,495.
- Effect:** The assets reported in the balance sheet is understated by \$863,895.
- Cause:**
- The former Community Services Coordinator directed the Accounts Maintenance Specialist to carry over the same fixed assets amount each year because they did not have records to identify the value of all fixed assets. This was confirmed in a review of 15 fixed asset items in which 14 did not have records to support the value noted in the property inventory.
 - The current Community Services Coordinator was not aware that there were fixed assets not being reported to the balance sheet because when she was hired she was not trained on how to verify the accuracy of reported fixed assets.
- Recommendations:**
1. The Accounts Maintenance Specialist and Community Services Coordinator should obtain training and assistance from the Administrative Service Center to determine the fair market value of the Chapter assets.
 2. The Community Services Coordinator should verify the fixed asset values against support documentation and ensure the accurate fixed assets amount is reported in the balance sheet.

Finding II: Property items are not tagged with identification numbers.

- Criteria:** Property Policies and Procedures, Section VII and VIII, requires the Chapter to complete the following: 1) perform an annual physical inventory of property, 2) maintain a complete and accurate inventory of all property, and 3) tag all property with an identification number.
- Condition:** 20 property items totaling \$443,090 were physically inspected. All items did not have property identification tags. The property inventory also did not identify property identification numbers for the items reviewed.
- Effect:** Property owned and controlled by the Chapter cannot be detected for recovery and insurance purposes if they should be stolen or misplaced.

- Cause:
- The Accounts Maintenance Specialist assigned the summer youth employees to complete the annual physical inventory, but did not adequately supervise the youth employees to make sure they properly completed the assigned tasks.
 - Although the Community Services Coordinator knew the property items needed to be tagged, other Chapter projects took priority and as a result, property controls were not implemented.

- Recommendations:
1. The Accounts Maintenance Specialist should tag all property with pre-numbered identification tags.
 2. The Community Services Coordinator should verify the accuracy of inventory records against the actual property items.

Finding III: Financial transactions are not completely and accurately posted in the accounting system.

Criteria: Fiscal Policies and Procedures, Section V.D, requires the Chapter accounting system to provide reliable and complete financial information. Section II.B requires the Chapter officials, Community Services Coordinator, and Accounts Maintenance Specialist to monitor the financial accounting system. LGA, Title 26, also requires the Secretary/Treasurer to monitor an adequate accounting system.

Condition: In the review of the accounting system, we detected the following discrepancies:

- Revenues totaling \$2,500 were not posted.
- Budgets totaled \$11,645 were not posted.
- Six disbursements totaling \$3,520 were posted to the wrong general ledger codes.
- A travel advance of \$408 was transposed and incorrectly expensed as \$480.

Effect: Incomplete and inaccurate posting of transactions results in unreliable financial statements.

Cause: No one independent of the Accounts Maintenance Specialist reviews the accuracy of the accounting system against source documents.

- Recommendations:
1. The Accounts Maintenance Specialist should create a posting checklist for all transactions recorded into the accounting system.
 2. The Community Services Coordinator, or someone independent of the Accounts Maintenance Specialist, should use the checklist to verify the posting of transactions is timely and complete.

Finding IV: Cash receipts are not safeguarded and deposited in a timely manner.

Criteria: Fiscal Policies and Procedures, Section VII.A., requires the Community Services Coordinator to reconcile cash receipts to support documentation and to make a deposit to the bank on a weekly basis, if practical. Otherwise, deposits should be made within 10 days. Until a deposit is made, the Accounts Maintenance Specialist is required to safeguard cash receipts at all times.

Condition: For the 12-month review period, there were 14 deposits of cash/checks. Of this, 11 (79%) deposits took between 12 and 70 business days to deposit cash receipts. The amounts of untimely deposits were anywhere from \$270 to \$6,238.

Furthermore, the Chapter stores undeposited cash in a safe, but during a field visit, auditors observed the safe to be open and left unattended with cash sitting outside of the safe.

Effect: With late deposits and minimal safeguards, there is a risk that cash could go missing and undetected. In addition, funds could be lost if checks expire after 90 days and are no longer valid to redeem.

Cause:

- The Accounts Maintenance Specialist has sole control over the safeguarding and deposits of cash receipts without supervision.
- The Accounts Maintenance Specialist does not always lock the safe when it is not being used.
- Since May 2019, the Community Services Coordinator authorized deposits to be made once a month because the distance to the bank is 80 miles round trip, and became too costly and time consuming to make weekly deposits.

Recommendations:

1. The Community Services Coordinator should convert cash to money order and make the money order payable to the Chapter at the end of the week, if routine bank deposits are not feasible.
2. The Community Services Coordinator should endorse all money orders and checks upon receipt.
3. The Community Services Coordinator should make deposits of all cash receipts biweekly.
4. The Community Services Coordinator should inspect daily that cash receipts are secured in a safe and the safe remains locked at all times when not in use.

Finding V: Not all funds have approved budgets in place.

Criteria: Fiscal Policies and Procedures, Section VI, requires the Chapter staff and officials to prepare a budget for all funds including carryover, Navajo Nation allocation, external funds, and internally generated funds. Budgets are to be community approved prior to expenditure.

Condition: A total of \$7,298 of internally generated revenues and \$10,217 of external revenues did not have community approved budgets in place.

Effect: In the absence of approved budgets, any expenditure of these funds will be considered unauthorized.

Cause:

- The Accounts Maintenance Specialist did not know that internally generated and external revenues had to have approved budgets.
- The Community Services Coordinator did not detect missing budgets by comparing reported revenues to posted budgets.
- Chapter officials are not involved in the budget process.

Recommendations:

1. The Community Services Coordinator, Chapter officials and Administrative Service Center should reconcile the revenues to the posted budget to verify all revenues have an approved budget in place.
2. The Chapter officials should present all budgets to the community membership for approval.

Finding VI: The Chapter cannot demonstrate that housing assistance projects are complete.

Criteria: Chapter Housing Policies and Procedures, Section VI, requires that upon completion of housing projects, the Community Services Coordinator will prepare a report describing the accomplishments of the project. Section X requires the Chapter Vice President to monitor housing assistance activities.

Condition: For the 12-month review period, there were four housing assistance recipients who were assisted a total of \$4,131. Housing assistance files for all four recipients did not have performance reports to verify that housing assistance projects were completed.

In addition, auditors made site visits to the homes of two recipients and confirmed the housing projects were incomplete. One recipient had materials stacked in the backyard and exposed to the elements. In addition, through observation, it appears that the other recipient has not lived in the home which was confirmed by a family member who lives nearby. The Chapter cannot account for the materials. These incomplete projects were not detected by the Chapter.

Effect: There is a risk that building materials totaling \$4,131 were used for unauthorized purposes or are unaccounted for due to theft, misuse or deterioration. This could be a financial loss for the Chapter.

- Cause:
- The Accounts Maintenance Specialist claimed she had an increased workload because there was no Community Services Coordinator, therefore she did not have the opportunity to complete site visits of the housing projects.
 - The Chapter's former Vice President did not monitor housing assistance activities to detect incomplete site visits.

- Recommendations:
1. The Community Services Coordinator should conduct site visits to the recipient's homes to verify building materials were used to complete approved housing projects. All site visits should be documented.
 2. The current Chapter Vice President should review recipient files to verify that the Chapter staff completed site visits and prepared performance reports. The Vice President should sign the performance report after verification.

Finding VII: There are no controls in place to safeguard building materials against loss, damage, and theft.

Criteria: Property Policies and Procedures, Section IV and V, require the Chapter staff and officials to ensure inventory controls are in place and property is safeguarded. The Chapter should be prepared to show precautionary actions were taken to guard against loss, damage, and theft. Property should be inventoried, documented, and reconciled periodically.

Condition: The Chapter has building materials remaining from a purchase made years ago for a Chapter project. There was no inventory control sheet developed to keep track of the use of materials. Over the years thereafter, some materials were issued as housing assistance but the items, quantity and recipients were not properly documented. Based on our observation of the current inventory, some of the materials have deteriorated.

Effect: There is a risk that the building materials may be stolen, misused or wasted without detection. This would result in a financial loss to the Chapter.

- Cause:
- Although the Chapter was aware of the building materials on hand, there was no plan on how these materials would be utilized to avoid any waste or loss.
 - Since there is no plan of action, the Chapter staff did not find it necessary to implement inventory controls to justify the use of the materials.

- Recommendations:
1. The Accounts Maintenance Specialist should implement an inventory control sheet to inventory all building materials on hand and document the use of the materials.

2. The Community Services Coordinator should reconcile the inventory to the materials on hand each month for accuracy.
3. The Chapter staff and officials should develop a plan for the use of the building materials and discard any unusable materials.
4. The Chapter Vice President should review the inventory controls sheet for completion each month and sign the inventory after verification.

Finding VIII: The Chapter does not competitively procure goods and services.

- Criteria:** Navajo Nation Procurement Rules and Regulations V.B require the Chapter to competitively procure goods and services by obtaining price quotations.
- Condition:** For the 12-month review period, we reviewed 14 operating expenses totaling \$7,170. Of this amount, seven (50%) expenses totaling \$1,780 were not competitively procured by obtaining price quotations.
- Effect:** The Chapter potentially paid higher prices for goods and services.
- Cause:**
- The Accounts Maintenance Specialist misunderstood that expenses paid with external funds did not require competitive procurement.
 - The Accounts Maintenance Specialist also misunderstood that the Chapter did not have to competitively procure goods and services if a vendor is considered the only available and local service provider.
 - The Chapter officials did not review the voucher packets to make sure price quotations were obtained prior to signing checks.
- Recommendations:**
1. To ensure competitive procurement, the Accounts Maintenance Specialist should obtain more than one price quotation for all purchase requests of goods and services.
 2. The Chapter officials should review voucher packets to confirm price quotations were obtained in the selection of vendors prior to signing checks.

Finding IX: Travel requests, advances and reimbursements lacked prior approval.

- Criteria:** Fiscal Policies and Procedures, Section VII.I., requires the Community Services Coordinator to approve travel forms prior to travel. In addition, advances and reimbursements are required to be approved prior to issuing checks.
- Condition:** For the 12-month review period, we identified 66 travel disbursements. 30 travel disbursements totaling \$7,409 were reviewed and the following exceptions were noted.

Types of Exception	No. of Exceptions
Travel authorization forms were not approved prior to travel.	6 of 30 (20%)
Advances were not approved prior to issuing checks.	3 of 14 (21%) 16 were not applicable
Reimbursements were not approved prior to issuing checks.	3 of 30 (10%)

Effect: Without approved travel authorizations and approval of related expenses, travel disbursements totaling \$3,096 are questionable.

Cause:

- An authorized approver is not always available to sign travel documents before departure.
- The Accounts Maintenance Specialist and Community Services Coordinator are not adhering to travel policies and procedures regarding travel advances and reimbursements.
- The Chapter officials did not verify proper approval was obtained for travel requests and expenses prior to signing travel checks.

Recommendations:

1. The Community Services Coordinator should approve travel authorization forms before travelers are permitted to travel.
2. The Accounts Maintenance Specialist should not process travel checks until travel requests, advances, and reimbursements are approved.
3. The Chapter officials should verify approval signatures are in place on applicable travel documents before signing the travel disbursement checks.

Finding X: The Accounts Maintenance Specialist approved housing assistance for a family member.

Criteria: Chapter Housing Policies and Procedures, Section IX, requires the Housing Committee to review each application and select housing assistance recipients based on needs. Fiscal Policies and Procedures, Section VII. N, requires the Chapter officials and employees to refrain from making, participating in or influencing decisions where there is any real or potential conflict of interest.

Condition: For the 12-month review period, the Chapter did not have a housing committee, therefore the Chapter staff was approving housing applications. However, this practice was contrary to policies and procedures. Further, in the absence of a Community Services Coordinator, the Accounts Maintenance Specialist approved and awarded housing assistance in the amount of \$1,200 to a family member. This was a conflict of interest that is prohibited by policies and procedures.

- Effect:** An approval process controlled by one individual, in this case the Accounts Maintenance Specialist, can influence the process unfairly and result in awards to family members. This practice will prevent community members with more critical and dire housing needs from getting assistance.
- Cause:**
- Although the Chapter no longer uses a housing committee to select housing recipients, the Chapter did not amend its housing assistance policy to reflect these changes.
 - Without a Community Services Coordinator, complete control over the housing assistance process was given to the Accounts Maintenance Specialist without proper checks and balances within the process.
 - The Accounts Maintenance Specialist used her position and delegated responsibilities, when the Chapter lacked a Community Services Coordinator, to approve housing assistance for a family member.
- Recommendations:**
1. The Chapter staff and officials should amend the housing policies to incorporate stronger controls to ensure a fair awarding process.
 2. The Chapter staff and officials should refrain from making decisions to award assistance to family members.

CONCLUSION

Not all fixed assets are reported on the balance sheet. Property items are not tagged with identification numbers. Financial transactions are not completely and accurately posted in the accounting system. Cash receipts are not safeguarded and deposited in a timely manner. Not all funds have approved budgets in place. The Chapter cannot demonstrate that housing assistance projects are complete. There are no controls in place to safeguard building materials against loss, damage, and theft. The Chapter does not competitively procure goods and services. Travel requests, advances and reimbursements lacked prior approval. The Accounts Maintenance Specialist approved housing assistance for a family member.

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 ten findings identified in the audit report.

BACKGROUND

The Office of the Auditor General has conducted a Special Review of the Indian Wells Chapter for the 12-month period ending September 30, 2019.

The Indian Wells 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 has been with the Indian Wells Chapter since 2012. The Community Services Coordinator was hired in March 2019. The Chapter was without a Community Services Coordinator for six months prior to the hire of the current Community Services Coordinator.

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 \$ 186,989 for the 12-month period ending September 30, 2019.

Subsequent Note: According the Chapter's response to this audit report, the Account Maintenance Specialist position has been vacant since March 2020. For reporting purposes, the references to the Accounts Maintenance Specialist in the report is referring to the now, former Accounts Maintenance Specialist.

Objective, Scope, and Methodology

The Office of the Auditor General has conducted a Special Review of the Indian Wells 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 functioning as designed to ensure:

- a. All fixed assets value are reported in the balance sheet in accordance with fixed assets policies and procedures.
- b. Chapter property is tagged with identification numbers in accordance with property policies and procedures.
- c. Financial transactions were completely and accurately posted to the accounting system in accordance with fiscal policies and procedures.
- d. Cash receipts are safeguarded and deposited in a timely matter in accordance with cash receipts policies and procedures.
- e. Chapter funds have approved budget in place in accordance with budget policies and procedures.
- f. Chapter staff confirmed and documented the completion of each housing assistance project in accordance with housing assistance policies and procedures.
- g. Controls are in place to safeguard building materials against loss, damage, and theft in accordance with property policies and procedures.
- h. The procurement of good and services are competitively procured in accordance with Navajo Nation Procurement Rules and Regulations.
- i. Travel requests, advances, and reimbursements have prior approval in accordance with travel policies and procedures.
- j. Chapter staff are not authorizing housing assistance for their family members in accordance with fiscal policies and procedures.

The audit covers activities for the 12-month period of October 1, 2018 to September 30, 2019.

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

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

CLIENT RESPONSE

JONATHAN NEZ
NAVAJO NATION PRESIDENT
MYRON LIZER
NAVAJO NATION VICE-PRESIDENT
SETH DAMON
NAVAJO NATION COUNCIL SPEAKER
ELMER P. BEGAY
CHAPTER COUNCIL DELEGATE

THE INDIAN WELLS CHAPTER OF THE NAVAJO NATION

BENSON STEWART
PRESIDENT
GEORGE JOHN
VICE-PRESIDENT
NORA A. JOHN
CHAPTER SECRETARY/TREASURER
JENNIFER RUSKIN
CHAPTER GRAZING OFFICIAL

August 18, 2020

Helen Brown, CFE, Principal Auditor
Delegated Auditor General
Office of the Auditor General
The Navajo Nation
P.O. Box 708
Window Rock, AZ 86515



Ms. Helen Brown:

We appreciate the time and effort of the auditing team to perform an audit of the Indian Wells Chapter and in providing the subsequent draft copy dated March 13, 2020. In addition, we appreciate the extension of time given for a formal response to that report due to the COVID-19 Pandemic.

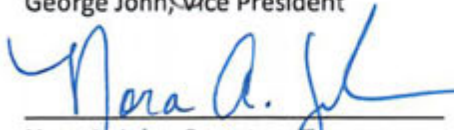
The Indian Wells Chapter agrees with the auditing team's findings and recommendations. The Chapter recognizes the need for developing and implementing a corrective action plan. For your information, our Accounts Maintenance Specialist position has been vacant since the middle of March, 2020.

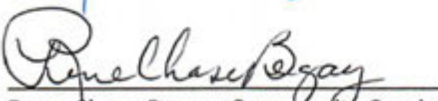
Respectfully,

INDIAN WELLS CHAPTER:


Benson Stewart, President


George John, Vice President


Nora A. John, Secretary-Treasurer


Rene Chase Begay, Community Service Coordinator