



**OFFICE OF THE AUDITOR GENERAL**

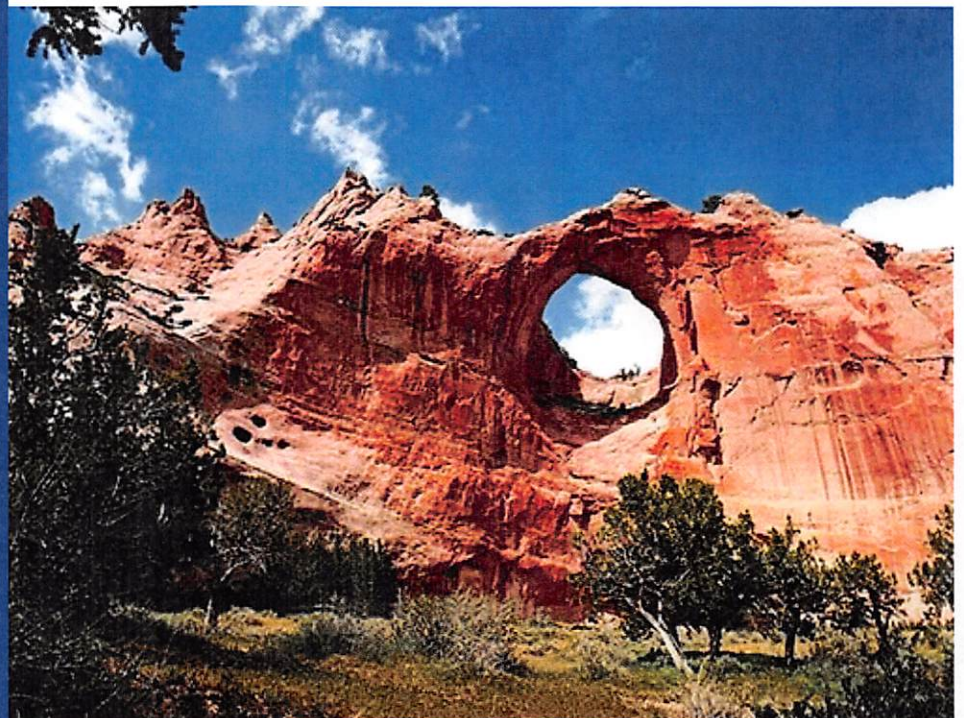
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**The Navajo Nation**

**A 3<sup>rd</sup> Follow-Up Review  
of the  
Leupp Chapter  
Corrective Action Plan Implementation**

**Report No. 21-01  
December 2020**

**Performed by:  
Kimberly Jake, Associate Auditor  
Karen Briscoe, Principal Auditor**





December 31, 2020

Valerie Kelly, President  
**LEUPP CHAPTER**  
CPO Box 5428  
Leupp, AZ 86035

Dear Ms. Kelly:

The Office of the Auditor General herewith transmits Audit Report No. 21-01, a 3<sup>rd</sup> Follow-up Review of the Leupp Chapter Corrective Action Plan Implementation.

### **BACKGROUND**

In 2014, the Office of the Auditor General performed a Special Review of the Leupp Chapter and issued audit report no. 14-20. A corrective action plan (CAP) was developed by the Leupp Chapter in response to the review. The audit report and CAP were approved by the Budget and Finance Committee on April 7, 2015 per resolution no. BFAP-10-15.

In 2017, a follow up review was completed and determined the chapter did not fully implement the CAP. As such, the Office of the Auditor General recommended imposing sanctions on the Chapter and Chapter officials in accordance with 12 N.N.C Section 9. However, the Budget and Finance Committee, per resolution no. BFO-28-17, approved to extend the implementation of the CAP to January 12, 2018 to allow the newly elected Chapter officials additional time to implement the CAP. The resolution authorized the recommended sanctions to be implemented if it is deemed the Leupp Chapter did not fully implement its corrective action plan based on subsequent reviews by the Auditor General.

In 2018, a 2<sup>nd</sup> follow-up review was completed and concluded that the Leupp Chapter still had not fully implemented the corrective plan. Therefore, in accordance with resolution no. BFO-28-17, sanctions on the Chapter and its officials went into effect on March 30, 2018.

### **OBJECTIVE AND SCOPE**

The objective of this third follow-up review is to determine whether the Leupp Chapter has fully implemented its corrective action plan based on a six-month review period of October 1, 2019 to March 31, 2020.

### **SUMMARY**

Of the 14 outstanding corrective measures, the Leupp Chapter implemented 3 (21%) corrective measures, leaving 11 (79%) not fully implemented. See attached Exhibit A for the detailed explanation of our review results.

### **CONCLUSION**

Based on the review results and the risks that remain as a result of the non-implementation, the Office of the Auditor General concludes the sanctions shall remain imposed on the Chapter and its officials pursuant to 12 N.N.C. Sections (b) and (c). Once the Leupp Chapter fully implements its corrective action plan, all withheld funds will be released to the Chapter and officials.

Ltr. to Valerie Kelly  
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We thank the Leupp Chapter staff and officials for assisting in this 3<sup>rd</sup> follow-up review.

Sincerely,



Helen Brown, CFE, Principal Auditor  
Delegated Auditor General

xc: Angela Cody, Vice President  
Calvin Johnson, Secretary/Treasurer  
Betty Tso, Chapter Manager  
Thomas Walker, Jr., Council Delegate  
**LEUPP CHAPTER**  
Sonlatsa Jim-Martin, Department Manager II  
Eunice Begay, Senior Program & Project Specialist  
**ADMINISTRATIVE SERVICES CENTER/DCD**  
Chrono

**REVIEW RESULTS**  
**Leupp Chapter Corrective Action Plan Implementation**  
**Review Period: October 1, 2019 to March 31, 2020**

<b>Issues</b>	<b>Total # of Corrective Measures</b>	<b># of Corrective Measures Implemented</b>	<b># of Corrective Measures Not Implemented</b>	<b>Audit Issue Resolved?</b>	<b>Review Details</b>
1. Chapter projects were not properly managed.	1	0	1	No	Attachment A
2. Fixed assets were not recorded in the accounting system and the financial statements.	2	1	1	No	
3. Annual physical count of Chapter property/ equipment was not performed.	1	0	1	No	
4. Perpetual inventory was not maintained for resale items.	4	0	4	No	
5. No inventory controls for unused housing materials.	4	2	2	No	
6. Monitoring of Chapter activities was not performed.	2	0	2	No	
<b>TOTAL:</b>	<b>14</b>	<b>3</b>	<b>11</b>	<b>0 – Yes 6 - No</b>	

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.

**REVIEW RESULTS**  
**Leupp Chapter Corrective Action Plan Implementation**  
**Review Period: October 1, 2019 to March 31, 2020**

◆ 2021 STATUS	<p><b>Issue 1: Chapter projects were not properly managed.</b>  <b>NOT RESOLVED</b></p> <p>For the review period, the Chapter did not have any capital outlay expenditures. As of March 31, 2020, the Chapter had capital outlay funds available in the amount of \$109,189.</p> <p>The Chapter had agreed, as a corrective measure, to develop and adopt a checklist for planning construction projects, advertising and selecting qualified contractors, and monitoring chapter projects but no checklist was provided. Although the Chapter referred to Navajo Nation guidelines for guidance in managing projects, there is no checklist or a defined process to indicate the Chapter will adhere to these guidelines to ensure projects will be managed to meet their intended purposes. The risk that chapter resources could be potentially misused or otherwise wasted due to improperly managed projects still remains. The Chapter should develop a checklist as an internal control measure to help better manage its capital projects.</p>
◆ 2021 STATUS	<p><b>Issue 2: Fixed assets were not recorded in the accounting system and the financial statements.</b>  <b>NOT RESOLVED</b></p> <p>The Chapter reported 37 fixed assets totaling \$1,438,148 in the financial statements as of March 31, 2020. In verifying the reliability of this reported value, we noted the following discrepancies:</p> <ul style="list-style-type: none"> <li>• 10 assets posted in the accounting system are not recorded on the property inventory.</li> <li>• 3 assets recorded on the property inventory are not posted in the accounting system.</li> <li>• There is a variance of \$75,705 between the total value of fixed assets posted in the accounting system and the total value recorded in the property inventory.</li> <li>• 6 assets with supporting documentation on file could not reconcile their reported values to this documentation.</li> <li>• 18 assets posted in the accounting system did not have documentation such as invoices or appraisals on file to support their reported values.</li> </ul> <p>These discrepancies are a strong indication that the Chapter Manager nor the Chapter Officials verified the accuracy of the fixed assets posted in the accounting system. Therefore, it is likely the assets reported in the financial statements are misstated thus rendering the financial statements as unreliable.</p> <p>Although the Chapter posted the fixed assets in the accounting system, there is still no proper reconciliation of the reported assets to the property inventory and supporting documentation. These same discrepancies were reported in the prior follow-up reviews so controls over fixed assets reporting remain weak.</p>
◆ 2021 STATUS	<p><b>Issue 3: Annual physical count of Chapter property/equipment was not performed.</b>  <b>NOT RESOLVED</b></p> <p>The Chapter administration completed an annual physical count of property in September 2020. However, the property inventory is missing some pertinent information such as property identification numbers, serial/model numbers, values, and condition. In addition, the auditor flagged 10 assets that</p>

**REVIEW RESULTS**  
**Leupp Chapter Corrective Action Plan Implementation**  
**Review Period: October 1, 2019 to March 31, 2020**

were omitted from the inventory and the Chapter Manager acknowledged two donated items that were also not added to the inventory. With the missing information and omissions, the Chapter's property inventory was deemed incomplete.

The physical count and inventory were completed by a temporary employee but there was no indication the Chapter Manager or the Chapter Officials reviewed the employee's work for accuracy and completeness. There is still no full accountability of chapter property and the risk for monetary losses remains if items go missing without detection.

◆  
2021 STATUS

**Issue 4: Perpetual inventory was not maintained for resale items.**  
**NOT RESOLVED**

For the review period, the Chapter did not have any resale activity. The Chapter said there has been no resale activity since 2017 and currently do not have any plans to resume resale activities.

Nonetheless, to verify if sufficient controls are in place to ensure a perpetual inventory is maintained for future resale activities, the Chapter's current resale policies and procedures were evaluated. Overall, the Chapter's resale policies and procedures which has been in place since 2010 requires a perpetual inventory for resale activities as well as physical counts of inventories on a monthly basis, recording of sales and spoilage, and the reconciliation of inventories. Although the resale policies and procedures facilitate controls for accountability, the corrective measures could not be verified as implemented due to no resale activity.

◆  
2021 STATUS

**Issue 5: No inventory controls for unused housing materials.**  
**NOT RESOLVED**

The Chapter Manager explained that they did not have materials on hand at the chapter but records revealed the Chapter inventoried housing-related materials such as toilets, water heater and fencing materials. Additional items such boards, insulation, and cement were noted on the inventory sheet but no information on the remaining quantity and condition of these items were recorded. Records indicated all items are stored in the warehouse.

According to the Chapter Manager, these items were purchased in prior years, were not fully used and the unused items remain on hand to date. On one occasion, the Chapter gave the insulation to a community member but did not record this assistance on the inventory sheet. Further, the Chapter Manager acknowledged that the administration does not perform monthly reconciliations of the materials to verify the accuracy of the inventory sheets. Therefore, the risk that the Chapter will not detect materials that may have been stolen or misused remains significant. The Chapter should continue to account for all housing-related materials on hand and that are available for chapter assistance.

◆  
2021 STATUS

**Issue 6: Monitoring of Chapter activities was not performed.**  
**NOT RESOLVED**

Monitoring over chapter activities has not improved. In the absence of effective monitoring, the Chapter Manager and officials did not detect the following:

**REVIEW RESULTS**  
**Leupp Chapter Corrective Action Plan Implementation**  
**Review Period: October 1, 2019 to March 31, 2020**

1. The Chapter has not developed a checklist to better manage its construction projects.
2. The fixed assets amount reported in the financial statements did not reconcile to support documentation.
3. Property inventory is not verified for completeness and accuracy.
4. Housing-related materials on hand were not inventoried and materials used were not properly recorded and reconciled.
5. Based on a sample of 19 disbursements, five disbursements did not have quotations as supporting documentation to provide proof of competitive procurement.

Overall, the Chapter does not have a system of independent checks in place to ensure chapter operations are transparent, resources are utilized with accountability and the Chapter complies with applicable laws and regulations. Without proper monitoring by the Chapter Manager and officials, deficiencies were not detected and addressed in a timely manner. Consequently, corrective actions for improvements were not fully implemented and various risks remain.