



OFFICE OF THE AUDITOR GENERAL

The Navajo Nation

**A 4th Follow-Up Review
of the
Sawmill Chapter
Corrective Action Plan Implementation**

**Report No. 21-02
February 2021**

**Performed by:
Stacy Manuelito, Senior Auditor
Beverly Tom, Senior Auditor**





February 26, 2021

Woodie Bennett, President
SAWMILL CHAPTER
P.O. Box 1786
Fort Defiance, AZ 86504

Dear Mr. Bennett:

The Office of the Auditor General herewith transmits Audit Report No. 21-02, a 4th Follow-up Review of the Sawmill Chapter Corrective Action Plan Implementation.

BACKGROUND

In 1997, the Office of the Auditor General completed a Performance Audit of the Sawmill Chapter and issued audit report no. 97-25. In 1999, a follow-up review of the audit recommendations was conducted and we issued audit report no. 00-03. To address the audit recommendations that were not implemented, the Sawmill Chapter developed a corrective action plan (CAP) which was approved by the Budget and Finance Committee on May 09, 2000 per resolution no. BFMY-45-00.

In 2003, the Office of the Auditor General conducted its first CAP follow-up review and determined that Sawmill Chapter did not fully implement its CAP to resolve the audit findings. On October 7, 2003, the Budget and Financial Committee approved sanctions, per resolution no. BFO-147-03 on the Sawmill Chapter for failure to fully implement its CAP.

In 2015, a second follow-up review was conducted and since no significant improvements were found, we concluded the sanctions would remain in place. In 2016, a 3rd CAP follow-up review was conducted and the sanctions had to remain in place since the Sawmill Chapter did not fully implement its CAP.

OBJECTIVE AND SCOPE

The objective of the 4th CAP follow-up review is to determine whether the Sawmill Chapter fully implemented its corrective action plan based on a six-month review period of October 1, 2019 to March 31, 2020. Our review was based on inquires, review of records and audit test work.

SUMMARY

Of the 26 corrective measures, the Sawmill Chapter implemented 24 (92%) corrective measures, but 2 (8%) corrective measures were not fully implemented. See Exhibit A for the details of our review results.

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CONCLUSION

The Sawmill Chapter has reasonably resolved the audit issues from the 1997 audit of the Chapter. Therefore, the Office of the Auditor General concluded to lift the sanctions against the Sawmill Chapter and its Officials. Accordingly, a memorandum will be provided to the Office of the Controller to release all withheld funds in accordance with 12 N.N.C. Section 9.

We thank the Sawmill Chapter staff and Officials for assisting in this 4th CAP follow-up review.

Sincerely,



Helen Brown, CFE, Principal Auditor
Delegated Auditor General

xc: Lewis Shirley, Vice President
Shawn Livingston, Secretary/Treasurer
Wilson Stewart, Jr., Council Delegate
SAWMILL CHAPTER
Sonlatsa Jim-Martin, Department Manager II
Patricia Begay, Senior Program and Project Specialist
ADMINISTRATIVE SERVICE CENTER/DCD
Chrono


REVIEW RESULTS

Sawmill Chapter 4th Corrective Action Plan Implementation
 Review Period: October 1, 2019 to March 31, 2020

Audit Issues	Total # of Corrective Measures	# of Corrective Measures Implemented	# of Corrective Measures Not Implemented	Audit Issue Resolved?	Review Details
1. There was a lack of contracting policies and procedures for professional services.	1	0	1	No	Attachment A
2. Expenditures incurred are not reviewed for propriety and, therefore, are inconsistent to guidelines, laws, and regulation.	1	1	0	Yes	
3. The Chapter does not record all revenues in its cash receipts journal.	2	2	0	Yes	
4. Bank statement reconciliations are incomplete.	2	2	0	Yes	
5. Lack of separate accounting of each fund.	2	2	0	Yes	
6. Community approved budgets are not monitored.	2	2	0	Yes	
7. The Chapter does not have policies and procedures for awarding financial assistance for its funds.	1	1	0	Yes	
8. The Chapter used its cash revenues to pay for small petty cash expenditures.	2	2	0	Yes	
9. The Chapter officials do not provide financial reports to the community, as required by the Local Governance Act.	2	2	0	Yes	
10. Policies and procedures to ensure financial reporting requirements and fund restrictions to be adhered to have not been established.	1	1	0	Yes	
11. Community approved policy and procedures for property inventory and property records are not being followed	6	5	1	Yes	
12. The Chapter does not have chapter vehicle plan of operation.	1	1	0	Yes	

13. Essential financial and project files are not retained nor filed in an orderly manner at the Chapter.	1	1	0	Yes	
14. The Chapter has not implemented its Five Management System policies and procedures.	2	2	0	Yes	
Total:	26	24	2	13- Yes 1- No	

WE DEEMED 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.

 2020 STATUS	There was a lack of contracting policies and procedures for professional services. NOT RESOLVED
<p>As a non-certified Chapter, the Sawmill Chapter is required to comply with the Navajo Nation Procurement Rules and Regulations. These rules and regulations serve as the policies and procedures for procuring professional services.</p> <p>During the review period, two contractors were paid: 1) house-wiring services totaling \$7,087 and 2) repair and maintenance for the chapter backhoe totaling \$12,448. Although the professional services for the house-wiring were properly procured, we noted exceptions in the procurement of the repair and maintenance services for the chapter backhoe. Since the services exceeded \$10,000, the Chapter was required to procure these services with a contract. However, the following exceptions were noted:</p> <ul style="list-style-type: none"> • Request for Proposal was not done. • No bid opening was conducted. • Navajo Nation service contract was not reviewed under the standard Navajo Nation 164 review process thus there was no approval by the Navajo Nation President. • Progress reports were not completed to document if the services were completed. <p>Overall, the Chapter does not execute professional services contracts when required in accordance with the Navajo Nation Procurement Rules and Regulations. Furthermore, the Chapter did not seek technical assistance from the Administrative Services Center to determine if the repairs and maintenance services should have been procured as contractual services. Nonetheless, the Chapter staff stated they will consult with the Administrative Services Center and the Department of Justice in the future to ensure the Chapter complies with the Navajo Nation Procurement Rules and Regulations.</p>	

<p>◆ 2020 STATUS</p>	<p>Expenditures incurred are not reviewed for propriety and, therefore, are inconsistent to guidelines, laws, and regulation. RESOLVED</p>
<p>82 expenditures totaling \$43,824 during the review period were mostly for operating supplies, repair and maintenance, reimbursements, contractual services, fuel purchases, building supplies, and tools. A sample of 43 (52%) expenditures totaling \$25,979 was selected to verify for supporting documentation.</p> <p>Our verification revealed one exception totaling \$400 in which a receiving report was not found on file for a purchase of wood. However, this was a minor discrepancy. During the review period, the Chapter purchased wood from five vendors paying from \$60 to \$100 per load. Although each wood vendor was required to complete an application and obtain a wood permit in order to sell wood to the Chapter, not all permits were found on file for the wood purchases. However, as a compensating control, the Chapter used the wood applications to document the wood purchases for each vendor. Overall, the Chapter is doing better ensuring expenditures are supported with proper documents.</p>	
<p>◆ 2020 STATUS</p>	<p>The Chapter does not record all revenues in its cash receipts journal. RESOLVED</p>
<p>For the review period, there was a total of 1,323 cash receipts totaling \$3,752. Of this number, 45 (3%) cash receipts totaling \$121 were evaluated and determined the Accounts Maintenance Specialist records receipts in pre-numbered cash receipt books and the Community Services Coordinator reconciles receipts before deposits are made. Overall, with these improvements, the Chapter has minimized the risks of unrecorded revenues that could be diverted for unauthorized purposes.</p>	
<p>◆ 2020 STATUS</p>	<p>Bank statement reconciliations are incomplete. RESOLVED</p>
<p>All bank reconciliations were reviewed and they verified the Accounts Maintenance Specialist reconciles the check register to the bank statements. Further, the Community Services Coordinator and officials use an internal monitoring tool to confirm the monthly bank reconciliations are accurate and complete. These measures help ensure bank reconciliations are completed timely and accurately.</p>	
<p>◆ 2020 STATUS</p>	<p>Lack of separate accounting of each fund. RESOLVED</p>
<p>Currently, the Chapter has an accounting system that segregates the funds received from the Navajo Nation based on a chart of accounts. The financial statements as of March 31, 2020 report fund activities separately and they reconcile to provide assurance the fund balances are accurate.</p>	
<p>◆ 2020 STATUS</p>	<p>Community approved budgets are not monitored. RESOLVED</p>
<p>For fiscal year 2020, the total chapter budget was \$837,213. This total budget comprised of a carryover budget of \$486,627; Navajo Nation appropriations of \$264,973; supplemental appropriations of \$81,939; and internal revenues of \$3,674.</p> <p>With budget approval, the Chapter can provide assurance Navajo Nation appropriations and internally generated revenues are properly approved before they are expended. With monthly budget to actual reporting, the Chapter better monitors its budgets to avoid any deficits.</p>	

<p>◆ 2020 STATUS</p>	<p>The Chapter does not have policies and procedures for awarding financial assistance for its funds. RESOLVED</p>
<p>The Chapter adopted Housing Discretionary policies and procedures for their housing and archeology assistance on March 23, 2016. In addition, Student Scholarship policies and procedures were approved by the community membership on June 8, 2015.</p> <p>For the review period, expenditures for housing, archeology, and scholarship financial assistance totaled \$9,342. All of these expenditures were incurred in accordance with the applicable policies and procedures, thereby ensuring better accountability for chapter financial assistance.</p>	
<p>◆ 2020 STATUS</p>	<p>The Chapter used it cash revenues to pay for small petty cash expenditures. RESOLVED</p>
<p>The Chapter staff represented the Chapter does not have a petty cash fund at this time. Further, no cash receipts are being expended as petty cash. A review of chapter records substantiated these claims as revenues collected from user fees are recorded on pre-number cash receipts tickets and bank statements showed deposits of these receipts into the Chapter's bank account. Further, the income statement and balance sheet did not disclose any petty cash activities. Overall, the Chapter has provided reasonable assurance its cash receipts are not being expended as petty cash.</p>	
<p>◆ 2020 STATUS</p>	<p>The Chapter officials do not provide financial reports to the community as required by the Local Governance Act. RESOLVED</p>
<p>The chapter regular meeting minutes revealed the following:</p> <ul style="list-style-type: none"> • The Secretary/Treasurer presented the monthly income statement and budget to actual reports to the community membership as financial reports; • Revenues, expenditures and available budgets were specifically reported; and • The financial reports were attached to the meeting minutes. <p>Overall, the Chapter was able to demonstrate compliance with the Local Governance Act (LGA) by providing monthly financial reports but more important to ensure the community membership is able to make informed decisions.</p>	
<p>◆ 2020 STATUS</p>	<p>Policies and procedures to ensure financial reporting requirements and fund restrictions to be adhered to have not been established. RESOLVED</p>
<p>The Chapter adopted the standard 2010 Department of Justice Five Management System (FMS) manual on April 16, 2010. This manual includes policies and procedures that address financial reporting, supporting documentation, reconciliations, and approval processes to ensure that financial reporting requirements and fund restrictions are adhered to. Our review has determined the Chapter reasonably complies with these policies and procedures.</p>	
<p>◆ 2020 STATUS</p>	<p>Community approved policy and procedures for property inventory and property records are not be followed. RESOLVED</p>
<p>During the review period, a total of 80 property items were identified from the Chapter's property inventory. Of this number, we judgmentally selected 45 (56%) property items totaling \$816,984 for audit test work and found these items were tagged with property identification numbers and this information was consistent with the property inventory.</p>	

Furthermore, the Chapter Fixed Asset Subsidiary Ledger revealed 18 property items as fixed assets totaling \$1,243,881. All 18 fixed assets were supported with documentation, had correct acquisitions dates, identification numbers and property descriptions, and their values were accurately reported on the balance sheet. Overall, property controls were deemed to be reasonably sufficient.

◆	The Chapter does not have Chapter vehicle plan of operation.
2020 STATUS	RESOLVED

On July 25, 2000, the Chapter approved an internal plan of operation for its heavy equipment and motor vehicles. The plan of operation outlines procedures for the usage and maintenance of these chapter equipment and vehicles.

In addition to the plan of operation, the Chapter maintains other records to document the routine use of its vehicles. From these records, we verified the following:

- Mileage logs are used to record vehicle odometer readings.
- Drivers document the destination and departure locations.
- Start and ending odometer readings, and dates of vehicle use are documented.
- Equipment check-off list is used to document physical inspection before a vehicle can be used.


Overall, the Chapter has controls in place to ensure better accountability for its heavy equipment and vehicle usage and maintenance.

◆	Essential financial and project files are not retained nor filed in an orderly manner at the Chapter.
2020 STATUS	RESOLVED

For the review period, the Chapter's files were reasonably organized as indicated by the following:

- Financial records are organized and easily retrievable.
- Cash receipts are in a pre-numbered cash receipt book.
- Financial binder holds the financial statements including the income statement, balance sheet, budget to actual as well as bank statements, check images from the bank, posted cash receipt report, and copy of deposit receipts.
- Bank reconciliation reports were complete and filed by month.
- Detailed budgets are filed with resolutions.
- Vendor files consists of quotes, receiving reports, fund approval form, copy of check, and other documents justifying expenditure.
- Meeting minutes are filed by the month.
- Housing, student scholarship, and Five Management System policies and procedures are on hand with supporting resolutions.
- Property inventory documents such as the master property listing and fixed asset subsidiary ledger are on file.

Although a majority of the chapter files were in order, improvements are still needed for the contract files as they were incomplete because of some missing required documents. Nonetheless, the Chapter has made significant improvements in establishing and maintaining essential financial and project files.

 2020 STATUS	The Chapter has not implemented its Five Management System policies and procedures. RESOLVED
<p>The Chapter staff and officials internally conducted an FMS refresher training on February 12-14, 2020. This training was beneficial as we determined the Chapter has reasonably implemented the applicable FMS Fiscal and Recordkeeping sections. However, since Sawmill Chapter is not an LGA certified chapter, it does not have the authority to implement the Procurement, Personnel and Property Management Sections. Nonetheless, we evaluated the adequacy of internal controls within these respective sections using the applicable FMS policies and procedures as guidelines and best practices. Accordingly, the Chapter has improved its controls in these areas and pledged to continue to improve in other areas such as with contracts when procuring services.</p>	

Other: \$20,000 earmarked for consultant to assist with sanction issues.

On August 2018, the Budget and Finance Committee approved with resolution no. BFAU-32-18 for Sawmill Chapter to utilize \$20,000 from its accumulated withheld sanctioned funds to hire a consultant to assist the Chapter to fully implement its corrective action plan. With full implementation, the Chapter can remove itself from sanction status.

The Office of Controller was assigned to administer the funds once the Sawmill Chapter identified a consultant. However, as of this review, the Office of the Controller confirmed that the \$20,000 earmarked for consultant services remained intact and had yet to be expended by the chapter. The Chapter administration acknowledge the Chapter did not hire a consultant because they were confident in implementing the Chapter's corrective action plan on their own.