



OFFICE OF THE AUDITOR GENERAL

The Navajo Nation

Internal Audit of TSE' LICHII (RED ROCK) Chapter

**Report No. 21-03
March 2021**

**Performed by:
HEINFELD, MEECH & CO, P.C.**



March 16, 2021

Louise Hoskie, President
TSE' LICHII (RED ROCK) CHAPTER
P.O. Box 2548
Gallup, NM 87305

Dear Ms. Hoskie:

The Office of the Auditor General, in conjunction with Heinfeld, Meech & Co., P.C., herewith transmits audit report no. 21-03, Internal Audit of Tse' Lichii (Red Rock) Chapter. The audit objective was to determine whether the Chapter maintains adequate internal controls to safeguard assets, ensure reliability of its financial reporting, and comply with applicable laws, regulations, policies and procedures. During the 12-month audit period ending June 30, 2020, our review has revealed the Chapter needs to strengthen controls with activities addressed by its five-management system. The following issues were identified:

- Finding I: Asset items were not always properly tracked or safeguarded.
- Finding II: Housing Discretionary applications were not always properly ranked, not paid in accordance with invoices, not supported by all required documentation and were not reviewed/approved by appropriate persons.
- Finding III: Cash Receipts were not supported by complete or proper documentation, deposited in a timely manner, consistently charged, fully reconciled, or reported to the Chapter membership monthly.
- Finding IV: Cash Disbursements were not properly supported by documentation, were in excess of approved amounts, were not included in the budget, were approved subsequent to executing the purchase, or were not reported to the Chapter membership monthly.
- Finding V: Travel Activities were not being calculated, tracked, or documented appropriately.
- Finding VI: Payroll Activities were not being properly tracked, recorded or documented.
- Finding VII: Conflicts of interest were not properly investigated and documented.

Detailed explanation of 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: Ida M. Nelson, Vice President
Grace Boyne, Secretary/Treasurer
Anderson H. Lee, Community Services Coordinator
Seth Damon, Council Delegate
TSE' LICHII (RED ROCK) CHAPTER
Sonlatsa Jim-Martin, Department Manager II
Guarena Adeky, Administrative Service Officer
ADMINISTRATIVE SERVICE CENTER/DCD
Melanie Askew, CPA, Manager
HEINFELD, MEECH & CO., P.C.

Office of the Auditor General - The Navajo Nation
Tse'Lichii (Red Rock) Chapter House

The internal audit of Tse'Lichii (Red Rock) Chapter House for the 12-month period ended June 30, 2020 was conducted 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 the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

To meet our audit objectives, Chapter administration and officials were interviewed, data was analyzed and documents were examined. Additionally we:

- Considered the Chapter's internal controls as outlined in the Chapter Five-Management System policies and procedures manual.
- Tested compliance with certain provisions of laws, regulations, and policies as outlined in the internal audit.

As a result of the internal audit, we noted certain matters that are opportunities for strengthening internal controls and instances of noncompliance with laws, regulations, contracts, and grant agreements and policies. Management should address these items to ensure it fulfills its responsibility to establish and maintain adequate internal controls and comply with laws, regulations, contracts, and grant agreements. Those items and our related recommendations are described in the accompanying summary. The items discussed in the accompanying summary are a result of audit procedures performed based on a risk based assessment, and therefore, not all deficiencies or weaknesses in controls may have been identified.

This information is intended for the Navajo Nation Auditor General's Office and is not intended to be and should not be used by anyone other than the specified party. However, this information is a matter of public record, and its distribution is not limited.

Sincerely,

Heinfeld Meech & Co. PC

Heinfeld, Meech & Co., P.C.
Flagstaff, Arizona
March 12, 2021

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Introduction and Background

The Navajo Nation Office of the Auditor General engaged Heinfeld, Meech, & Co. P.C. to perform an internal audit of the Tse’Lichii (Red Rock) Chapter House for the 12-month period ended June 30, 2020.

Red Rock Chapter is a political subdivision of the Navajo Nation and is considered a general purpose local government for reporting purposes. The Red Rock Chapter is located within the Eastern Agency of the Navajo Nation.

The local chapter government is managed by the Community Services Coordinator (CSC) with administrative support provided by an Accounts Maintenance Specialist (AMS). Oversight is provided by the elected chapter officials comprising of the President, Vice-President and Secretary/Treasurer. Additional oversight is provided by the Navajo Nation Division of Community Development/ Administrative Service Centers (ASC).

The Red Rock Chapter operates under a five-management system with policies and procedures addressing five key system components: fiscal management, personnel management, property management, records management, and procurement. The authorities, duties and responsibilities of the Red Rock Chapter are enumerated in Title 26, Local Governance Act of the Navajo Nation Code.

The majority of the Chapter’s resources are provided through appropriations from the Navajo Nation central government. Other revenue is generated from miscellaneous user charges assessed by the Chapter for services and/or goods provided to its community members. Red Rock Chapter’s fiscal year 2020 operating budget was approximately \$454,000.

The objective of the internal audit was to examine the following areas where there were identified concerns of weak internal controls and poor accountability:

1. Financial transactions are authorized, valid, and properly recorded to permit the preparation of financial statements and other financial reports.
2. Assets are safeguarded against loss or misuse.
3. Chapter activities addressed by the five-management system comply with applicable laws and regulations.

Audit Methodology

In meeting the audit objectives, we interviewed the Chapter administration and officials, and examined available records. More specifically, we tested samples of cash receipts, payroll and nonpayroll disbursements including housing discretionary disbursements and travel disbursements for internal controls and compliance requirements by using a non-statistical, judgmental method.

Findings and Recommendations

Finding I: Asset items were not always properly tracked or safeguarded.

Criteria

Pursuant to 26 N.N.C. § 101 (A), as noted in the Property Management Policies and Procedures Manual, Section IV, the Chapter staff and Chapter officials shall be charged with responsibility to ensure accurate inventory control and safekeeping of all Chapter Property. The chapter shall maintain adequate insurance coverage. Liability insurance coverage shall be mandatory, where required by law. All Chapter property is for Chapter business only. All property and equipment of a value of more than \$1,000 shall be capitalized and recorded in the Chapter’s Capital Asset ledger and at year end, capitalized assets shall be transferred to the Capital Assets Account Group Ledger. Additionally all individuals shall comply with the Procurement Policies and Procedures Manual for any and all acquisitions of property. Pursuant to 26 N.N.C. § 101 (A), as noted in the Property Management Policies and Procedures Manual, Section VIII, the Chapter shall conduct and maintain a complete, detailed and accurate physical inventory of the Chapter property assigned and shall reconcile the entire property listing annually, or upon a change of the Community Services Coordinator within the Chapter Administration. Also, at the beginning of each fiscal year the Community Services Coordinator shall provide a copy of the most current inventory listing to the Navajo Nation Risk Management Department or whenever there is any new acquisition or disposition of any equipment, vehicles, etc. and any real property such as land, buildings and improvements.

Condition

During our review of capital assets, we noted the following:

1. During discussions we were made aware of the purchase of 4WD vehicle for \$67,098. Paperwork obtained indicates the Chapter took possession of this vehicle from the dealership on February 27, 2020. Mileage at that time was noted at 25 miles per review of the invoice. As of the date this engagement was performed, the vehicle was not included on the Physical Inventory Equipment listing provided. Additionally, no documentation is available to document the vehicle was registered, is insured, has an applicable policy and procedure resolution, or that a monthly mileage log is in place. Approximately 3,113 miles had been added to the vehicle based on a screenshot of the odometer provided with no documentation available to support these miles were for Chapter business.
2. During discussions, we were made aware of the possible existence of a 1977 John Deere Motor Grader; however, this item was not included on the Physical Inventory Equipment Listing provided and there was no policy or procedure document prepared by the CSC to indicate the appropriate procedures and use of the equipment.
3. During the review of Chapter disbursements during the review period, we noted a purchase of a computer for \$2,464 that was not included on any asset or insurance lists provided.

4. For one of four asset items selected from the Physical Inventory Equipment listing, there was no policy or procedure document provided to document approved use or mileage log. The item is a white GMC 4x4 from 1988 which may be inoperable, however is still listed on the Automobile Schedule attached to the property and liability insurance information from October 2019.
5. There were no asset or related accounts, such as depreciation expense or accumulated depreciation noted in the general ledger provided by the Chapter.
6. The Physical Equipment Inventory listing as provided does not include the information necessary to provide an appropriate subledger for entry into the general ledger, as it does not include the full purchase date for many items, or estimated useful life for all items.

Effect

Assets not properly safeguarded are at risk of loss, theft or damage. The lack of appropriate insurance coverage could result in liabilities for the Chapter and loss of funds. Items not being tracked or monitored could be used for purposes outside of approved chapter activities.

Cause

Chapter policies were not always followed. The CSC did not immediately update the Chapter’s property records and inventory to reflect asset acquisitions or review the property insurance listing periodically for adequacy.

Recommendations

1. Significant capital type purchases should be tracked to ensure all steps of the process are completed in a timely manner. Reports should be provided at least monthly to the Chapter regarding new items purchased and their implementation or usage by the CSC and approved by the Chapter officials. Additionally, vehicles or equipment that are not included in the insurance listing, or not registered as required by law should be parked in the chapter lot and not used or moved until such items are obtained.
2. An annual inventory should be conducted by the CSC and reconciled to the property lists and capital asset subledgers. If this cannot be completed for safety or other reasons, a reasonable alternative should be put in to place. For example, another individual could conduct the count, or it could be done at a later date or in parts.
3. A mileage or hours used log should be maintained for all vehicles and heavy equipment owned or used by the chapter. These should be put into place by the CSC upon receipt of the item and used to track all activity of the items regardless of when a formal usage policy or procedure is in place.
4. All items that are either owned by the Chapter or are the responsibility of the Chapter should be maintained on the property listing by the CSC and included in the insurance policies to reduce the risk to the Chapter in terms of loss, theft, damage or liability regardless of their operating condition.

Finding II: Housing Discretionary applications were not always properly ranked, not paid in accordance with invoices, not supported by all required documentation and were not reviewed/approved by appropriate persons.

Criteria

As noted in the Housing Discretionary Assistance Policies and Procedures, Section VI., documents required for existing home/new home construction/partial assistance are a complete housing application form, income verification statement, family card or Certificate of Indian Blood (CIB) for each household member, evidence of land ownership/verification of home ownership, doctor’s statement of medical condition if applicable, pictures of the residence the applicant wants renovated, material costs estimates (quotes) from three local lumber companies, and a Navajo Nation Voter’s Registration Card for an applicant registered at least six months or more with the Chapter. Section V. states awarding priorities shall be depending on the Chapter Administration assessment using a ranking sheet. The priority shall complement the ranking score given to each applicant on the ranking sheet. The rating assigns rights to limited funds and related housing services. Additionally, pursuant to 26 N.N.C. § 101 (A), as noted in the Fiscal Policies and Procedures, Section VII, (B) 1-2, includes the following: appropriate segregation of duties shall be maintained to ensure that chapter employees are not in a position to authorize, execute and approve all aspects of cash disbursements, the Community Services Coordinator (CSC) and Chapter Secretary/Treasurer will co-sign all checks for payment. In the event the Secretary/Treasurer is unavailable for co-signature, the Chapter President or Vice-President will be authorized to co-sign as the secondary signatory. (This will require a justification memorandum). Additionally, when a check is written to a primary signatory, the President or the Vice-President shall substitute as co-signer. Lastly, pursuant to 26 N.N.C. § 101 (A), as noted in the Fiscal Policies and Procedures, Section VII, (N), all Chapter officials and Chapter employees shall refrain from making, participating in or influencing decisions where there is any real or potential conflict of interest. In the event of a real or potential conflict of interest where the Chapter official or employee is required to participate as part of his or her official duties, the individual shall write a justification memorandum disclosing the real or potential conflict of interest and the necessity for that individual’s continued participation, a copy of which shall be provided to the Navajo Nation Ethics and Rules Office and the Chapter Administration.

Condition

During our review of a sample of 40 Housing Discretionary disbursements totaling \$18,482, the following was noted:

1. For one of 40 housing discretionary disbursements reviewed totaling \$500, the disbursement was made to an employee serving as a primary signatory. As a result, the check was signed in accordance with policy by the Vice President, however a memorandum of justification was not provided. Lastly, the Point Allocation Summary Sheet had no points allocated or documented.

2. For one of 40 housing discretionary disbursements reviewed totaling \$500, the disbursement was made to a related party and no justification memorandum disclosing the real or potential conflict of interest and the necessity for that individual’s continued participation, was provided for review. The FAF and check were both signed by the CSC who is nephew to the applicant. The Chapter President, spouse of applicant, did not appear to be involved in the application approval process as there were no signatures or approvals noted with his name. Additionally, the application was missing appropriate documentation to provide verification of land ownership.
3. For two of 40 housing discretionary disbursements reviewed totaling \$1,000, the disbursement was made to a potential related party and no justification memorandum disclosing the real or potential conflict of interest and the necessity for that individual’s continued participation, was provided for review. The FAF and check were both signed by the CSC, who based on discussions may be the father of the applicants. Additionally the Point Allocation Summary Sheets documentation did not contain points for one and was not provided for the other.
4. For two of 40 housing discretionary disbursements reviewed totaling \$931, no documentation was available to review.
5. For three of 40 housing discretionary disbursements reviewed totaling \$1,500, the disbursements did not coincide with the quotes that were obtained, resulting in unsubstantiated disbursements of \$577. For one, a quote was not provided with the supporting documentation.
6. For 16 of 40 housing discretionary disbursements reviewed, the application file was missing one or more required items. Missing items included one or more quotes, voter registration cards, pictures of home, verification of ownership, a points ranking allocation or a CIB.
7. For one of 40 housing discretionary disbursements reviewed in the amount of \$500, the application and check stub were marked void, however there is no evidence the check was voided in the system. Further, no supporting documentation other than Points Allocation Summary Sheet was provided.
8. For one of 40 housing discretionary disbursements reviewed in the amount of \$500, the check was subsequently voided in the accounting software, however no documentation was available to review regarding the initial approval of the payment or the subsequent void.
9. For six of 40 housing discretionary disbursements reviewed, the FAF was missing a needed approval signature.

Effect

Housing discretionary disbursements reviewed were not properly supported resulting in unsupported disbursements of \$1,508. Additionally, lack of disclosure of conflicts of interest and the lack of use of the ranking system could lead to disbursements not being made in a fair and equitable manner.

Cause

Processes were not properly implemented or put in place regarding the housing discretionary disbursements or conflict of interest. The Chapter did not ensure all components of an application were submitted prior to authorizing the housing disbursement. Although various individuals interviewed appeared to be aware of potential conflicts of interest, these items were not discussed, disclosed and communicated to ensure it was addressed when an applicable transaction needed to be processed. FAF and check approvers did not require documentation, justifications and communications to be done.

Recommendations

1. The Chapter administration should ensure FAFs are reviewed and checks should not be written until all required information is received including approval signatures.
2. Documentation to support amounts paid should be maintained for all disbursements. This should include all required documents for applications.
3. The Point Allocation Summary Sheet should be updated to include an approved by signature line and date, as well as a reviewed by or concurred by line to use in the case of potential conflict of interest situations.
4. When a check is written by a primary signor (CSC or the Secretary-Treasurer), the President or the Vice-President shall substitute as co-signor and a memorandum of justification shall be required for the substitute signatory.
5. Conflict of interest policies should be followed by Chapter officials and employees.

Finding III: Cash Receipts were not supported by complete or proper documentation, deposited in a timely manner, consistently charged, fully reconciled, or reported to the Chapter membership monthly.

Criteria

Pursuant to 26 N.N.C. § 101 (A), as noted in the Fiscal Policies and Procedures, Section VII, (A) 1-2, includes the following: appropriate segregation of duties shall be maintained to ensure that no one employee is in a position to solely collect, deposit, safeguard and reconcile all cash receipts; a two-copy receipt form will be used to record all cash received, whether check or currency; cash receipts shall be deposited weekly (if practical); all cash receipts will include the following recorded information: the payer’s name, the purpose of the cash receipt, the amount received, the check or money order numbers, date received and the initials of the person receiving the money; deposit amounts will be reconciled to the total cash receipts in the cash receipts journal; the Community Services Coordinator will deposit all monies within ten days of receipt; monthly cash receipts and deposits are to be reconciled. Per Section VII (A) 2m of the Fiscal Policies and Procedures, the Secretary/Treasurer will report the cash receipts as part of the monthly financial reporting to the Chapter membership and Section VII (L) 2, the Community Services Coordinator shall prepare monthly financial statements and the Secretary/Treasurer shall present it to the community at a duly called Chapter meeting following the end of the month. Per Section VII (C) 2i of the Fiscal Policies and Procedures, the Community Services Coordinator shall review the reconciliation for accuracy and completeness and return the documents to the Accounts Maintenance Specialist for filing.

Condition

A sample of 25 cash or revenue receipts totaling \$116,142 was reviewed. During this review, the following was noted:

1. For 20 of 25 cash receipts reviewed, it could not be determined if the deposit was made intact and in a timely manner (at least weekly). For 16 of the receipts, a deposit slip was not provided and the amounts could not be traced to a bank statement or other evidence of deposit. For one receipt, the deposit and banking information was provided, but a copy of the two-copy prenumbered receipt was not retained, therefore it is unknown as to whether the deposit was made properly and intact and the date the funds were received is unknown. For one deposit totaling \$5,271, a copy of the check and banking information was provided, but a two-copy prenumbered receipt was not retained, and thus, based on the check date, the deposit was not made within one week. Lastly, for two cash receipts, a two-copy prenumbered receipt was not retained, therefore it is undeterminable if the deposit was made timely.
2. For three of 25 cash receipts reviewed totaling \$105, incorrect supporting documentation was provided.

A general review of cash balances and cash accounts was performed and the following was noted:

3. Monthly financial reports, including cash receipts, were not included or were not included timely in the documents to be reviewed at monthly Chapter meetings.
4. Although bank reconciliations are being performed, there is no indication of review or approval.

Effect

All cash receipts received may not have been recorded resulting in misstated cash and revenue related financial activity. When cash receipts are not deposited timely, financial activity reports used to make decisions will not be up to date, monies cannot be immediately invested and exposure to theft increases. A \$614 amount was recorded to the Bad Debt Loss account in August 2019 to resolve unreconciled cash activity from prior periods. Lack of accurate and timely financial reports may impact the ability for Chapter officials and management to make decisions.

Cause

Policies were not always followed. The CSC is not, at minimum on a monthly basis, reconciling cash receipts to deposits recorded in the accounting system.

Recommendations

1. The Chapter administration should ensure supporting documentation is maintained to support all deposits and ensure deposits are made in a timely manner.
2. A two-copy prenumbered receipt form should be completed to record all cash received, whether by check or currency.
3. During the monthly reconciliation process, deposits should be reconciled from the accounting system through to the bank statements by the AMS, and missing amounts or differences should be fully investigated and resolution should be documented and approved or reviewed by a separate person.
4. Financial reports should be provided to the Secretary/Treasurer by the AMS or CSC to present to the chapter membership at monthly meetings.

Finding IV: Cash Disbursements were not properly supported by documentation, were in excess of approved amounts, were not included in the budget, were approved subsequent to executing the purchase, or were not reported to the Chapter membership monthly.

Criteria

Pursuant to 26 N.N.C. § 101 (A), as noted in the Fiscal Policies and Procedures, Section VII, (B) 1-2, includes the following: appropriate segregation of duties shall be maintained to ensure that chapter employees are not in a position to authorize, execute and approve all aspects of cash disbursements, the Chapter Services Coordinator (CSC) and Chapter Secretary/Treasurer will co-sign all checks for payment. In the event the Secretary/Treasurer is unavailable for co-signature, the Chapter President or Vice-President will be authorized to co-sign as the secondary signatory. (This will require a justification memorandum). Additionally, when a check is written to a primary signatory, the President or the Vice-President shall substitute as co-signer. The Chapter chart of accounts shall be used to determine the appropriate account to which the disbursement will be charged. Disbursements of funds which are not budgeted are prohibited. Fund Approval Forms (FAF) must be prepared for all disbursements prior to check preparation. Per Section VII (L) 2, the CSC shall prepare monthly financial statements and the Secretary/Treasurer shall present it to the community at a duly called Chapter meeting following the end of the month.

Condition

During our review of a sample of 25 disbursements totaling \$27,696, the following was noted:

1. For three of 25 disbursements reviewed, totaling \$1,320 the disbursement was not accompanied by a fully executed FAF. For two of the three, there was a FAF provided but without signature.
2. For four of 25 disbursements reviewed totaling \$5,310, the disbursement was not supported by a vendor invoice.
3. For two of 25 disbursements reviewed, the disbursement exceeded the authorized amount on the FAF. Total amount over-expended was \$367.
4. For one of 25 disbursements reviewed in the amount of \$647, the disbursement coded to general ledger code 6608 for training and tuition fees did not fall under an approved budget line item.
5. For one of 25 disbursements reviewed, the Chapter utilized funds budgeted for gravel in general ledger code 6356 to provide for emergency shelter in the amount of \$272, but the supporting documents were not accompanied by documentation of the emergency for proper approval of invoice.

6. For one of 25 disbursements reviewed totaling \$1,749 did not agree to the vendor's invoice/receipt of \$427 provided. Based upon the Walmart receipt provided dated 3/11/20, the Chapter received \$1,322 in change due as a result of the transaction. A second Walmart receipt dated 3/11/20 was provided, that included the purchase of two \$500 gift cards with cash. Assuming this was done with the change, \$322 in change due from the initial transaction is unaccounted for. A Walmart receipt was provided dated 3/17/20 indicating \$724 of the gift cards purchased were negotiated for chairs, leaving \$276 in the remaining gift card balance unaccounted for.
7. For one of 25 disbursements reviewed, the disbursement of \$220 was not approved prior to receipt of goods. The disbursement was made on June 22, 2020 while the FAF is dated approved October 7, 2020.
8. For two of 25 disbursements reviewed totaling \$7,384 for bathroom additions, there was no documentation to support or indicate an approved application for assistance.
9. Monthly financial reports, including cash disbursements, were not included or were not included timely in the documents to be reviewed at monthly Chapter meetings.
10. During our review of 14 repairs and maintenance type disbursements totaling \$6,636, we noted the following:
 - a. For four of 14 repairs and maintenance type disbursements reviewed totaling \$997, there was no documentation available to review.
 - b. For two of 14 repairs and maintenance type disbursements reviewed totaling \$776, there was no invoice to support the expenditure. One disbursement had a quote with the documentation. Additionally both were missing the CSC approval signature and were only signed on the concurred by line by a Chapter official.
 - c. For one of 14 repairs and maintenance type disbursements reviewed in the amount of \$119, the FAF was missing the CSC approval signature, was only signed on the concurred by line by a Chapter official, and the disbursement was not included in the fiscal year 2020 budget. The underlying services were received in fiscal year 2019, however payment for these services was not made until fiscal year 2020.
 - d. One of 14 repairs and maintenance type disbursements reviewed in the amount of \$220 does not appear to have been coded correctly per the chart of accounts. The disbursement was for personal protective equipment type items rather than repairs and maintenance.
 - e. For five of 14 repairs and maintenance type disbursements reviewed totaling \$2,910, the disbursements were not included in the budget.
11. During our review of five legal survey or archeological clearance disbursements, totaling \$1,650, we noted the following:
 - a. For all five legal survey or archeological clearance disbursements reviewed, there was no invoice to support the amounts paid. In one case, there was a quote for the amount paid.
 - b. For four of five legal survey or archeological clearance disbursements reviewed totaling \$1,200, there was no documentation to determine if amounts were coded correctly.

Effect

Disbursements were not properly supported resulting in unsupported disbursements of \$16,715. It cannot be determined if Chapter funds were used appropriately in the absence of supporting documentation. Disbursements made outside of the approved budget or not properly supported by documentation result in the potential for improper disbursements and misstated expenditure related financial activity. Lack of accurate and timely financial reports may impact ability for Chapter membership to make informed decisions.

Cause

Processes were not properly implemented or put in place. The CSC and Chapter officials were not verifying that required supporting documentation is in place prior to approving disbursements.

Recommendations

1. The Chapter administration should ensure FAFs are reviewed and checks should not be written until all required information is received including approval signatures.
2. Documentation to support amounts paid should be maintained for all disbursements. This should include a vendor invoice and/or a receiving report.
3. Disbursements should not be made unless there is an approved budget. The Chapter administration should institute a requisition or purchase order process to ensure items have approval prior to being ordered/received.
4. The Chapter administration should pay vendors in accordance with invoices.
5. The Chapter administration should ensure disbursements are coded consistency and accurately in accordance with the established Chart of Accounts.
6. The Chapter administration should ensure disbursements are paid timely.
7. Monthly cash disbursement reports as well as other financial reporting should be provided to the Secretary/Treasurer to provide to the chapter membership at monthly meetings.

Finding V: Travel Activities were not being calculated, tracked, or documented appropriately.

Criteria

Pursuant to 26 N.N.C. § 101 (A), as noted in the Fiscal Policies and Procedures, Section VII, (I) 1-10 is the following: Only reasonable and necessary travel expenses are reimbursed, authorized travel expenses will include transportation, lodging, meals, and other costs directly related to Chapter business travel. Travel that benefits multiple chapters or agencies should be shared across those agencies proportionally. All requests for travel funds are only reimbursable if funds are available in the Chapter’s approved budget. All travel costs shall require receipts in support of costs. Meal expenses shall be reimbursable when incurred beyond a five hour travel period or beyond a fifty mile radius from the Chapter house. Meals provided at no additional cost to the traveler (such as meals included in conference fees) shall not be reimbursed. Travel authorization forms must be completed for all reimbursement requests and must be submitted within 10 calendar days of return. Additionally, Internal Revenue Service (IRS) Publication 5137 Fringe Benefit Guide indicates that meals away from the tax home but not overnight are generally taxable wages to the employee because travel expenses must be away from home overnight to be excludable.

Condition

During the review of a sample of nine Chapter travel disbursements totaling \$3,180, the following was noted:

1. For two of nine travel reimbursements reviewed, the mileage reimbursement calculation did not appear to be appropriate. Individuals were reimbursed in excess of the allowable amount by an identifiable amount of \$53.
2. For three of nine travel reimbursements reviewed, reimbursement amounts were in excess of the established limits. For one reimbursement, the individual was reimbursed for dinner when travel ended prior to 7 PM and in two reimbursements, individuals were reimbursed in excess of the allowable amount by an identifiable amount of \$69.
3. For two of nine travel reimbursements reviewed, totaling \$689, there was no Travel Expense Report, Mileage Report/Log or Trip Report to support the reimbursement.
4. A \$30 disbursement coded in the general ledger to travel was not coded according to the adopted chart of accounts. The expenditure was for consultant travel, and therefore code 6603 – Other Professional Fees, would be more appropriate.

Effect

Travel reimbursements were not properly supported resulting in unsupported disbursements of \$813. Financial activity related to travel may be misstated. Unauthorized travel poses a risk of improper use of Chapter funds. Travelers could incur expenses unrelated to Chapter business and receive reimbursements based on improper travel claims.

Cause

Policies and processes were not always followed. The CSC and Chapter officials did not verify documents were provided or that calculations were accurate prior to signing checks. Documentation was either misplaced or missing.

Recommendations

1. The Chapter administration should ensure all travel reimbursements are reviewed to ensure the amounts calculated for reimbursement agree to the support documents and are within the approved rates.
2. Travel authorization forms and receipts should be reviewed prior to disbursement by the CSC and compared to the current CONUS rates to ensure amounts paid are within those limits including amounts based on time of travel.
3. Supporting documentation should be obtained and retained including approved travel authorization forms, receipts for hotel and meal reimbursements, and any other support for amounts being requested for reimbursement prior to payment.
4. The Chapter administration should ensure travel reimbursements are coded consistency and accurately in accordance with the established Chart of Accounts.
5. Lodging or meal reimbursements made for items not meeting the IRS guidelines (employee must be traveling away from the general area of the tax home substantially longer than an ordinary day’s work and the employee requires an overnight stay or substantial sleep or rest to meet the demands of the work while away from home), should be included as a taxable fringe benefit.

Finding VI: Payroll Activities were not being properly tracked, recorded or documented.

Criteria

Pursuant to 26 N.N.C. § 101 (A), the Chapter shall develop and follow Payroll Control Policies to ensure effective control over payroll and disbursements. Fiscal Policies and Procedures, Section VII, (H) 1-2 includes the following: appropriate segregation of duties shall be maintained to ensure that chapter employees are not in a position to authorize, execute and approve all aspects of payroll processing and disbursements. The Chapter will follow all applicable Navajo Nation, state and Federal laws and regulations relating to payroll. Personnel records on each employee shall be maintained at the Chapter administration on authorized chapter forms. These forms include but are not limited to items such as a Personnel Action Form (PAF), I-9 Form, Employment Application Form, and Parental Consent Form. The immediate supervisor is responsible to maintain an attendance sheet on all Chapter employees. This sheet shall be signed by chapter employees each day to record employees’ time of arrival and departure. Timesheets shall also document regular and overtime hours worked, and any leave earned or taken each pay period.

Condition

During the review of payroll processes and a sample of 25 payroll transactions totaling \$12,085, the following was noted:

1. For one of 25 payroll transactions reviewed, the employee time sheet reported different hours worked in comparison to the hours worked utilized for the employees’ pay calculations resulting in an overpayment for 2 hours amounting to \$18.
2. For five of 25 payroll transactions reviewed, no time sheet was retained or the wrong time card was provided, resulting in unsupported pay of \$1,611.
3. For one of 25 payroll transactions reviewed, there was no approval signature on the employee time card/claim form.

Effect

Payroll transactions were not properly supported resulting in unsupported disbursements of \$1,629. Amounts paid to employees were not always supported by appropriate documentation. As a result, employees may have received erroneous pay amounts and the salary and related benefit expenses within the Chapter’s reported financial activity may not be properly stated.

Cause

Processes were not properly implemented. The CSC and Chapter officials did not verify documents were provided, complete, or that calculations were accurate prior to signing checks.

Recommendations

1. Pay calculations should be reviewed prior to the printing of payroll checks by the CSC to ensure hours used to calculate employee pay by the AMS agree to actual time worked per the approved time sheets.
2. Increased care should be made to ensure documentation is retained in employee files, including time sheets to support amounts paid and that documentation includes required signatures.

Finding VII: Conflicts of interest were not properly investigated and documented.

Criteria

Pursuant to 26 N.N.C. § 101 (A), as noted in the Fiscal Policies and Procedures, Section VII, (N) All Chapter officials and employees shall refrain from making, participating in or influencing decisions where there is any real or potential conflict of interest. In the event of a real or potential conflict of interest where the Chapter official or employee is required to participate as part of his or her official duties, the individual shall write a justification memorandum disclosing the real or potential conflict of interest and the necessity for that individual’s continued participation, a copy of which shall be provided to the Navajo Nation Ethics and Rules Office and the Chapter Administration. Additionally as noted in the Fiscal Policies and Procedures, Section VII, the Chapter is to establish internal controls to ensure its assets and resources are protected against waste, fraud and inefficiency, and to ensure that accounting data are accurate, dependable and compliant with any regulations, terms and conditions, assurances, and certification requirements of funding agencies.

Condition

No conflict of interest file was maintained at the Chapter. Multiple potential conflicts of interest were mentioned during the audit that do not appear to have been properly investigated by the Chapter and disclosed to the Navajo Nation Ethics and Rules Office or handled in an “at-arms-length manner”. Two of these involve persons employed at the chapter via the PEP program that are potentially related to the CSC and the Chapter President. Multiple other items noted relate to disbursements from the Housing Discretionary monies being paid to parties potentially related to the AMS, the CSC and /or the Chapter President. Additionally, it appears the CSC is not removing themselves from participating in items involving the potential related parties. See also specific items noted within the other report areas.

Effect

Potential conflict of interest items were not documented and reported as required. As a result, transactions could be initiated that are not arm’s length, which could result in procurement violations, Chapter funds not being used in the most prudent manner, and increase the risk of fraud or misappropriation of funds.

Cause

Chapter officials and employees verbally disclosed various potential related party situations, however actions were not taken to ensure it was investigated, documented and reported.

Recommendations

The Chapter should implement a conflict of interest file. All Chapter officials and employees should complete a conflict of interest form annually documenting potential conflicts of interest. Chapter officials and employees should be trained on what constitutes a related party. If a potential conflict is identified, these should be disclosed to the Navajo Nation Ethics and Rules Office, and the person in question should remove themselves from participating in any manner. This should include decisions regarding the purchase of items, the signing of checks or approval forms, or receiving goods.

Client Response



THE NAVAJO NATION
Red Rock Chapter #16

Jonathan Nez PRESIDENT
Myron Lizer VICE President

Louise Hoskie, Chapter President
Ida M. Nelson, Chapter Vice-President
Grace M. Boyne, Chapter Secretary/Treasurer

Seth Damon, 24th Council Delegate
Anderson Lee, Community Service Coordinator
Leatrice Nelson, Account Maintenance Specialist

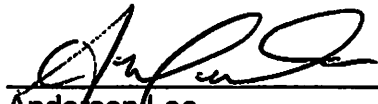
February 24, 2021

Navajo Nation
Office of the Auditor General
Karen Briscoe, CGAP
Principal Auditor

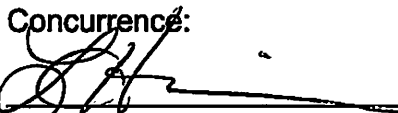
Re: Audit Final Draft


Dear Ms. Briscoe,
Red Rock Chapter accepts the final draft of the Special Review as presented at the Final Audit exit on February 09, 2021 at 2:00 pm. Red Rock Chapter will now proceed on the recommended course of Compliance Action Plan pursuant to Title N.N.C. §7A as advised by your office within thirty (30) days.

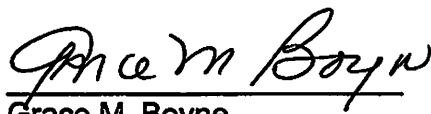
Red Rock Chapter has already started the corrective action plan and will continue to make corrections along the way. If you have any questions please feel free to contact Red Rock Chapter at (505) 905-8071/8135 or redrock@navajochapters.org or alee@navajochapters.org. Thank you.


Anderson Lee
Community Service Coordinator
Red Rock Chapter

2/24/21
Date

Concurrence:

Louise Hoskie, President
Red Rock Chapter


Ida M. Nelson, Vice-President
Red Rock Chapter


Grace M. Boyne
Red Rock Chapter

