



OFFICE OF THE AUDITOR GENERAL

The Navajo Nation

Internal Audit of the Torreon/Star Lake Chapter

**Report No. 21-05
March 2021**

**Performed by:
NEWBERRY & ASSOCIATES, LTD**



March 30, 2021

Richelle Montoya, President
TORREON/STAR LAKE CHAPTER
P.O. Box 1024
Cuba, NM 87013

Dear Ms. Montoya:


The Office of the Auditor General, in conjunction with Newberry & Associates, LTD, herewith transmits audit report no. 21-05, Internal Audit of Torreón/Star Lake Chapter. The audit objective was to determine whether the Chapter maintains adequate internal controls to ensure reliability of its financial reporting, safeguard assets, 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: Chapter Physical Equipment Inventory Form is incomplete, and the Chapter did not perform an annual physical inventory count.
- Finding II: General and subsidiary ledgers for all Capital Assets owned are not being maintained. Capital Assets are not reported in the financial statements.
- Finding III: Scholarships are awarded to students who had not submitted all essential documents.

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: Mario P. Atencio, Vice President
Sherry Begaye, Secretary/Treasurer
Wallace Toledo, Community Services Coordinator
Daniel E. Tso, Council Delegate
TORREON/STAR LAKE CHAPTER
Sonlatsa Jim-Martin, Department Manager II
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March 17, 2021

Office of the Auditor General of The Navajo Nation
Torreon Star Lake Chapter

The internal audit of the Torreon Star Lake Chapter 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 that 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.

The results of our audit include three (3) findings. These findings and our related recommendations are described in the accompanying report.

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 yours,

NEWBERRY & ASSOCIATES, LTD.

Brett Newberry, CFE, CPA

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INTERNAL AUDIT RESULTS

Finding I: Chapter Physical Equipment Inventory Form is incomplete, and the Chapter did not perform an annual physical inventory count.

Criteria: Torreon/Star Lake Chapter Property Policies & Procedures Manual, Section VII (A) states the Chapter shall maintain a complete, detailed, and accurate identification of all chapter properties at all times. . . 2. All properties of the Torreon/Star Lake Chapter shall be identified, classified, and recorded on the Torreon/Star Lake Chapter Physical Equipment Inventory form. In addition, The Property Policies & Procedures Manual, Section VIII (B)(1) states: The Torreon/Star Lake Community Services Coordinator (CSC) shall conduct the physical inventory that will involve an actual observation and identification of each piece of property using the Torreon/Star Lake Chapter Physical Inventory Form. A property condition check is part of the inventory count and shall be recorded on the Torreon/Star Lake Chapter Physical Inventory Equipment Inventory Form. Section VIII (B)(2) states the Accounts Maintenance Specialist (AMS) shall ensure that all pertinent records and documentation of all Torreon/Star Lake Chapter property are kept in files including invoices, warranties, and titles.

Condition: There is no existing Physical Inventory Equipment form which includes required information such as date of purchase, tag numbers, and required classification. The Chapter does maintain a Statement of Values for Property Insurance Underwriting Exposure Summary Information chart which listed 47 items of property. This Statement is for insurance purposes. However, this Statement of Values was not complete in that it does not include the date of purchase or tag numbers for all 47 items of property, nor does it include the values or serial numbers of several items on the list. The Chapter real property is valued at \$3,118,000 and the Chapter equipment property is valued at \$89,000 per the Statement of Values for Property Insurance Underwriting Exposure Summary Information chart. No physical inventory count that involved actual observation and identification of each piece of property was conducted during the 12-month period ended June 30, 2020.

Effect: The Chapter is in violation of its property policies and procedures. The risk is very high that Chapter property is missing, has been stolen, or even misused because the Chapter has no way to identify all the property without a complete property listing or without conducting physical counts periodically. The Chapter AMS and CSC are not being held accountable for their respective job responsibilities.

Cause: The AMS is not maintaining a Chapter inventory list. Property files including invoices, warranties, and titles are not being maintained by the AMS. The CSC and Chapter Officials have not supervised the AMS to ensure compliance with property policies and procedures. The CSC has not conducted a physical inventory involving observation and identification of each piece of property on an annual basis.

The Torreon/Star Lake Chapter Officials are not monitoring and reviewing property management and activities of the Torreon/Star Lake Chapter administration on a quarterly basis nor are the officials helping resolve any discrepancies, irregularities, or illegalities in the property control process.

INTERNAL AUDIT RESULTS

Recommendations:

- 1. The AMS should obtain training in accurate and complete record keeping for real property and equipment property. The AMS should update the property files periodically.**
- 2. The CSC should coordinate with the AMS to create property files for each type of property—i.e., buildings, equipment, vehicles, furniture, computers, etc. Each file should contain information about the property, including date of purchase or acquisition, original cost of the property, current fair market value, Chapter tag number, required classification, maintenance records, warranties, titles, insurance coverage, and any other pertinent documentation.**
- 3. The CSC should coordinate with the AMS to create a Chapter Physical Equipment Inventory Form. This form should include all information as required by the Property Policies and Procedures Manual Section VII Property Identification, Classification and Records.**
- 4. Under the supervision of the CSC, the AMS should determine that all property owned by the Chapter is included on the Physical Equipment Inventory Form, and the Physical Equipment Inventory Form is complete and accurate.**
- 5. The CSC should reconcile the Torreon/Star Lake Chapter inventory list on an annual basis. The CSC should determine that the Physical Equipment Inventory Form is complete and accurate. The CSC should conduct, at least annually, a physical inventory involving observation and identification of each piece of property.**
- 6. The AMS should determine that the Statement of Values for Property Insurance Underwriting Exposure Summary Information chart is updated to include required information for insurance purposes.**
- 7. The Chapter Officials should monitor and review the property management and activities of the Torreon/Star Lake Chapter administration on a quarterly basis.**

INTERNAL AUDIT RESULTS

Finding II: General and subsidiary ledgers for all Capital Assets owned are not being maintained. Capital Assets are not reported in financial statements.

Criteria: Torreon/Star Lake Chapter Property Policies & Procedures Manual, Section V (A) 1. (d) states the Chapter Manager shall keep both general and subsidiary ledgers for all Capital Assets owned. Torreon/Star Lake Chapter Fiscal Policies Manual, Section VII (F)(2)(g) states the Capital Assets account group shall be reported on the Combined Balance Sheet financial statement.

Condition: There is no general nor subsidiary ledger for the Capital Assets of the Chapter. Therefore, there is no Capital Assets Account Group included on the Combined Balance Sheet as of June 30, 2020.

Effect: The Chapter is in violation of its property policies and procedures. The balance sheet is not reporting an accurate value of the Chapter's assets. The Chapter assets are understated in the monthly and annual Balance Sheets by about \$3,118,000 (value of capital assets included on Statement of Values for Property Insurance). Therefore, the Chapter members have no knowledge of the Capital Assets owned by the Chapter.

Cause: The administrative staff are not keeping both general and subsidiary ledgers for all Capital Assets owned. The AMS is not maintaining the Capital Asset Records, nor recording or reporting the Capital Assets into the accounting records and financial statements. The administrative staff do not understand the importance of maintaining general and subsidiary ledgers for all assets, including Capital Assets, and liabilities of the Chapter to aid in the preparation of complete financial statements.

The Torreon/Star Lake Chapter Secretary/Treasurer is not ensuring the administrative personnel are maintaining accurate ledgers to prepare adequate and complete financial reports for the Chapter.

Recommendations:

1. The Chapter administration should obtain training in maintaining general and subsidiary ledgers for the Capital Assets owned by the Chapter.
2. The Chapter Secretary/Treasurer should obtain training in preparation of adequate and complete financial reports so he/she can ensure the administrative personnel are preparing adequate and complete Chapter financial reports.
3. The CSC should coordinate with the AMS to create a general and subsidiary ledger for all Capital Assets, including buildings and major equipment and vehicles.
4. Under the supervision of the CSC, the AMS should determine that all Capital Assets are included in both the general and subsidiary ledgers. The AMS should then determine that Capital Assets are included in the monthly balance sheet of the financial statements.

INTERNAL AUDIT RESULTS

5. The Chapter Secretary/Treasurer should determine that the administrative personnel are preparing adequate and complete financial reports and including Capital Assets in the monthly balance sheet.

Finding III: Scholarships were awarded to students who had not submitted all essential documents.

Criteria: Torreon/Star Lake Chapter Scholarship or Financial Assistance Policies and Procedures, Section VI (B) states that before a potential applicant can be eligible for scholarship/assistance, they must be on the Chapter Planning and Regular Meeting Agenda with completed and accurate documents. Section VI (H) states the Student shall submit all essential documents to the Chapter as described in Section XI of these policies and procedures or it shall be considered incomplete and denied. Section VIII (G) states the Chapter Staff and Scholarship Committee shall make periodic and random verification on all scholarship recipients for attendance and adequate academic progress.

Students who have received one Chapter scholarship that was paid directly to them and are later applying for a second scholarship must include receipts for the expenditures of the first scholarship that total the dollar amount received in the first scholarship.

Condition: Per the Policies and Procedures, certain named documents are required prior to Chapter approval and disbursement of scholarship monies. The auditor examined and tested six (6) out of a total of forty-seven (47) disbursements for scholarship assistance during the 12-month period ended June 30, 2020. The Chapter disbursed four thousand nine hundred dollars (\$4,900) for six (6) scholarships for students whose applications were incomplete. Essential documents were missing from the files of all six (6) scholarship disbursements tested as follows:

1. Required transcripts from prior awarded semesters were missing from three (3) students' documentation.
2. Documentation for required eight (8) hours of community service were missing from two (2) scholarship files.
3. Receipts for the disbursement of scholarship checks payable to individual scholarship recipients were missing from three (3) scholarship files. These three scholarship recipients were applying for a second scholarship from the Chapter and failed to provide essential documentation related to the expenditure of the first scholarship award.
4. The "Scholarship Recipient Cover Letter" (checklist of documents received signed and dated by a Chapter Administrative staff) were not completed for three (3) of the students.

INTERNAL AUDIT RESULTS

Effect: The Chapter is in violation of its Scholarship Assistance Policies and Procedures. The Chapter is not adhering to its policies requiring completed and accurate documents before awarding scholarships. Per the Chapter's policies and procedures, these applications should have been denied. There may have been other scholarship disbursements that were incorrectly awarded to students whose applications were not complete.

Cause: These four students were awarded six (6) scholarships at chapter meetings by resolution. However, the Chapter administration did not demand, nor did they receive all the required documents before including the scholarship applicants on the chapter meeting agenda. The Chapter administration did not periodically and randomly verify school attendance and/or adequate academic progress on scholarship recipients.

Recommendations:

1. The Chapter administration should obtain training regarding responsibilities for implementing and monitoring the Chapter Scholarship and Financial Assistance Policies and Procedures.
2. The CSC and the AMS should determine that all essential documents are included with the student's scholarship application before including the student on the Chapter Planning and Regular Meeting Agenda. Essential documents include receipts for the expenditures of prior scholarships paid directly to the recipients when the student is requesting a second scholarship.
3. The Chapter administration and Scholarship Committee should determine that all scholarship recipients' school attendance and adequate academic progress is being verified periodically. This would include academic transcripts for the semester the scholarship is awarded.
4. The Chapter administration and Scholarship Committee should request and retain proof of community service hours from the scholarship applicants who received a scholarship in previous semesters.

INTERNAL AUDIT RESULTS

CONCLUSION

Chapter physical equipment inventory form is incomplete. The Chapter did not perform an annual physical inventory count for property and equipment during the 12-month period ended June 30, 2020. A general and subsidiary ledger is not being maintained for all Capital Assets owned by the Chapter. Fixed Assets (also known as Capital Assets) are not reported in the financial statements. The Chapter violated its Scholarship and Financial Assistance Policies and Procedures by awarding scholarships to students with incomplete application documents.

Overall, the Torreon/Star Lake Chapter has not complied with its policies and procedures, and there are control weaknesses posing various risks. These deficiencies resulted in the three findings identified in the audit report.

INTRODUCTION AND BACKGROUND

Newberry & Associates, Ltd has conducted an internal audit of Torreon/Star Lake Chapter for the twelve (12) month period ending June 30, 2020. This audit was requested by the Office of Auditor General after selecting Torreon/Star Lake Chapter for an audit.

Torreon/Star Lake Chapter is a political subdivision of the Navajo Nation and is considered a general purpose local government for reporting purposes. The Torreon/Star Lake 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 and a Public Employment Program (PEP) Office Specialist for part of the 12-month period ending June 30, 2020. 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.

The Torreon/Star Lake 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 Torreon/Star Lake 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. Torreon/Star Lake Chapter fiscal year 2020 operating budget was approximately \$629,000.

OBJECTIVE, SCOPE AND METHODOLOGY

The objective of this audit was to evaluate the Chapter's internal controls, including how well controls are designed, implemented and operated to meet the Chapter's objectives in the following areas:

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.

The audit covers activities for the 12-month period of July 1, 2019 through June 30, 2020.

In meeting the audit objectives, we interviewed the Community Services Coordinator, Accounts Maintenance Specialist, three Chapter Officials, and the Administrative Services Center Staff, and we examined available records. Our interviews were conducted by written questionnaires, email, and telephone conversations. All documents we requested were emailed to us. We tested samples of expenditures for internal controls and compliance requirements by using a non-statistical judgmental method.

GOVERNMENT AUDITING STANDARDS

We conducted this internal audit in accordance with generally accepted 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.

Newberry & Associates, Ltd. expresses its appreciation to the Torreon/Star Lake Chapter administration and officials for their cooperation and assistance throughout the audit.

CLIENT RESPONSE



THE NAVAJO NATION
TORREON/STAR LAKE CHAPTER

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torreon@navajochapters.org

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March 25, 2021

Navajo Nation
Office of Auditor General
Helen Brown, CFE, Principal Auditor
Delegated Auditor General

Dear Ms. Brown,

Torreón/Star Lake Chapter received the final draft of the Internal Audit dated March 16, 2021 at their exit meeting on March 17, 2021 at 1:00 pm. Pursuant to 12 Title N.N.C § 7A, Torreón/Star Lake Chapter accepts the final draft and will now proceed to the recommended course of the Corrective Action Plan made by your office within 30 days.

Please feel free to contact the Torreón Star/Lake Chapter at (505)-731-2336 or email, if you should have any questions.

Sincerely,

Wallace Toledo
Community Service Coordinator

Richelle Montoya, Chapter President

Mario P. Atencio, Vice President

Sherry Begaye, Secretary/Treasurer

cc: Torreón Star Lake Chapter Officials
Daniel E. Tso, Council Delegate
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