

OFFICE OF THE AUDITOR GENERAL

The Navajo Nation

A Special Review of the Rough Rock Chapter

**Report No. 21-22
September 2021**

**Performed by:
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September 30, 2021

Betty Dailey, President
ROUGH ROCK CHAPTER
PO Box 4344
Chinle, AZ 86503

Dear Ms. Dailey:

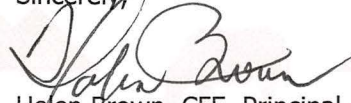
The Office of the Auditor General herewith transmits Audit Report No. 21-22, a Special Review of the Rough Rock Chapter. The audit objective was to determine whether the Chapter maintains adequate internal controls to safeguard assets, ensure reliability of its financial reporting, and comply with applicable laws, regulations, policies and procedures. During the 12-month audit period ending March 31, 2021, 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 property is not routinely inventoried and recordkeeping needs improvement.
- Finding II: Insurance coverage for chapter property and equipment was not obtained timely.
- Finding III: Chapter lacks safeguard measures to protect property and equipment.
- Finding IV: Chapter fixed assets are not reported on the balance sheet.
- Finding V: Financial reporting is not provided at duly called chapter meetings.
- Finding VI: Inaccurate filing of IRS Form 941 resulted in a \$1,387 tax liability.
- Finding VII: Chapter does not comply with Arizona State Unemployment regulations.
- Finding VIII: Chapter lacks adequate controls over heavy equipment rental.
- Finding IX: Chapter does not verify credentials of volunteers who operate Chapter heavy equipment.
- Finding X: Chapter's hiring practices are questionable.
- Finding XI: Contractors are hired contrary to procurement policies and procedures.
- Finding XII: A contractor was paid \$850 for work that could not be verified.
- Finding XIII: Bank signatory card is not updated.
- Finding XIV: Poor working relationship between Chapter administration and Officials affects chapter operations.

Detailed explanations of the audit issues can be found in the body of the report. The audit provides recommendations for remediation of the reported findings.

If you have any questions about this report, please contact our office at (928) 871-6303.

Sincerely,



Helen Brown, CFE, Principal Auditor
Delegated Auditor General

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Sylvia Hadley, Secretary/Treasurer
Sheila King, Community Services Coordinator
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REVIEW RESULTS

FINDING I: Chapter property is not routinely inventoried and recordkeeping needs improvement.

Criteria: FMS Property Policies and Procedures, Section VII.A. requires the Chapter to protect chapter assets by implementing the following: 1) perform an annual physical inventory of property, 2) maintain a complete and accurate inventory of all property, 3) tag all property with an identification number, and 4) keep property on chapter premises.

FMS Property policies and procedures, Section IX. states the Accounts Maintenance Specialist (AMS) should check all property locations to ensure the asset has not been misplaced, lost, stolen or damaged.

Condition: Based on the Chapter property listing, there is a total of 57 property items. Of this, we judgmentally selected 20 (35%) property items totaling \$592,245 for audit test work and found control deficiencies. During the audit period, the Chapter did not perform an annual physical inventory, the Chapter house and warehouse lacked identification numbers, and the property inventory did not provide pertinent information such as serial numbers, property numbers, acquisition cost, and acquisition date.

Recent Navajo Nation purchases of backhoe and grader were not located on the Chapter premises. Rather, the equipment is stored at the Rough Rock Community School. The Chapter Officials and Facility Manager of the Rough Rock Community School agreed to the temporary storing of the equipment on the school premises for 60 days starting April 21, 2021 and ending June 21, 2021 through a memorandum. The Chapter also freed the school from any liabilities. However, it is questionable whether the Facility Manager is the authorized school representative to approve the agreement. The arrangement was made since the Chapter President felt the equipment would be better safeguarded on the school premises.

Lastly, the Chapter did not record a dump truck and gooseneck flatbed trailer on the property inventory which were disclosed by the Chapter President. The items were donated to the Chapter by a community member but they are no longer operational.

Effect: Without adequate property controls, the Chapter cannot provide reasonable assurance that all property and equipment owned and controlled by the Chapter was accounted for and safeguarded against loss or misuse.

Cause: The Chapter Officials do not monitor the Chapter property activities despite the Community Services Coordinator (CSC) having sole responsibility in this area.

- Recommendations:
1. In the absence of an AMS, the CSC should use temporary employees to assist with the annual physical count and inspection of Chapter property to update the property inventory with pertinent information and verify all property items have identification tags.
 2. The CSC and Officials should periodically inspect property items to ensure they have identification tags and verify the property inventory is kept current.
 3. The CSC and Officials should obtain authorization from the authorized representatives for Rough Rock Community School for the storing of the heavy equipment on school premises. This agreement should be documented with a written agreement and approval through the Navajo Nation review process to protect both parties from potential liabilities.

FINDING II: Insurance coverage for chapter property and equipment was not obtained timely.

Criteria: Property Policy and Procedures, Section V. requires the Chapter to provide a copy of the most current inventory to the Navajo Nation Risk Management Program on an annual basis, or upon new purchases or disposition of any real property, for insurance purposes. The Navajo Nation Budget Instructions Manual requires all Navajo Nation Chapters to submit an annual Underwriting Exposure Summary with the latest property inventory to the Risk Management Program to determine chapter insurance premiums.

Condition: The Rough Rock Chapter has not insured its property and equipment since 2010. A memorandum from the Risk Management Program confirmed the Chapter did not have insurance coverage for the Chapter property. The Chapter submitted an Underwriting Exposure Summary for fiscal year 2020 on November 19, 2019 but was not acceptable since the Chapter's property inventory did not provide serial numbers, property numbers, and purchase prices. At end of fieldwork, the Chapter informed the auditors a physical inventory was completed and obtained insurance coverage as of July 8, 2021 for fiscal year 2021. However, the Chapter is not accounting for all property and equipment and it is questionable if more property items are not accounted for.

Effect: Without insurance coverage, the Chapter is exposed to risks of significant financial loss due to property theft or damages.

Cause: The CSC does not monitor chapter property to ensure inventory records are complete and applicable reports are remitted to ensure adequate insurance coverage is maintained by the Chapter.

- Recommendations:
1. The AMS should continue to prepare the Underwriting Exposure Summary annually for the CSC's review and approval.
 2. The CSC should ensure the Underwriting Exposure Summary is attached with an accurate property inventory with supporting documentation and upon approval with signature, remit applicable documents to the Risk Management Program.

3. The CSC and Secretary/Treasurer should monitor the Chapter expenditures to ensure annual insurance premiums are paid in full and in a timely manner.

FINDING III: Chapter lacks safeguard measures to protect property and equipment.

Criteria: Property Policies and Procedures, Section VII., VIII., and X. requires the Chapter to implement the necessary internal controls to protect its property and equipment at all times and keep them accounted for at the Chapter premises.

Condition: Based on inquiries and observation of chapter premises via pictures and Google map, we noted the following security issues:

- There are no security cameras on the Chapter buildings.
- Chapter does not have fencing around the compound to secure property and equipment.
- The highway entrance into the Chapter compound has a gate and the Chapter staff are securing the gate with a chain and the padlock. It was noted the padlock belongs to a community member.
- Chapter warehouse is deteriorating and in need of renovations. The warehouse is used to store a backhoe, two cement mixers and office equipment.

The Chapter is under renovation and once renovations are completed, the CSC stated the Chapter is considering fencing of the Chapter compound and purchasing security doors for the warehouse. Overall, the Chapter currently does not have security measures in place for its chapter property and equipment.

Effect: Chapter property and equipment could be stolen or taken off chapter premises without authorization.

Cause: Although the Chapter staff and Officials are aware of security concerns for the property and equipment, there are no formal plans including budgets to address these issues.

Recommendations:

1. The CSC and Officials should evaluate and develop a plan that prioritizes the security needs for the chapter compound.
2. Along with the plan, the Chapter should create a budget to establish proper safeguard measures.

FINDING IV: Chapter fixed assets are not reported on the balance sheet.

Criteria: FMS Property Policies and Procedures, Section VIII.B. requires the Accounts Maintenance Specialist to ensure all pertinent records and documentation of all chapter property are kept on file including invoices, warranties, and titles.

FMS Fiscal Policies and Procedures, Section VII.F. requires the Chapter to report the value of fixed assets in the financial statements. If there is no documentation to support the value of the fixed assets, the CSC will estimate the value of the asset based on fair market value. Title 26, Local Governance Act, Section 1, states capitalized property is nonexpendable property having an acquisition value of \$1,000 or more.

Condition: The Chapter has six fixed assets totaling \$579,371. We judgmentally selected all six fixed assets to verify proper supporting documentation and accurate reporting in the financial statements.

The Chapter did not use the 2011 appraisal report on file to support the fixed asset values reported in the property inventory. The following table shows the variances of the appraised property:

Item	Value per Property Inventory	Value per Appraisal	Difference over/(under)
Backhoe	\$75,721	\$30,000	\$45,721
Chapter House	\$179,000	\$145,000	\$34,000
Pre-school	\$22,650	\$275,000	\$(252,350)
Warehouse	\$60,000	\$18,000	\$42,000
Senior Center	\$242,000	\$175,000	\$67,000
2 Ton Truck	-	\$20,000	\$(20,000)
Total	\$579,371	\$663,000	\$(83,629)

- Total fixed asset value of \$663,000 is not recorded on the balance sheet.
- The Chapter has not developed a fixed asset listing.

Effect: The balance sheet as of March 31, 2021 is deemed unreliable since the Chapter has not reported its fixed asset values. The Chapter cannot make informed financial decisions based on unreliable financial reports.

Cause: The CSC and Officials do not understand the importance of recording and reporting the Chapter's fixed asset values to the financial statements.

- Recommendations:
1. The Chapter administration and Officials should seek more training on property management and asset reporting from the Administrative Service Center.
 2. The Chapter should use the 2011 appraisal report to update the fixed asset values on the property inventory.
 3. The CSC should monitor and verify fixed asset values are updated on the property inventory and balance sheet.

FINDING V: Financial reporting is not provided at duly called chapter meetings.

Criteria: FMS Fiscal Policies and Procedures, Section VII.L. requires the Chapter administration to generate basic financial statements including a balance sheet, the statement of revenues and expenditures, and a budget-to-actual report.

FMS Fiscal Policies and Procedures, Section IV.C. states the Secretary/Treasurer is responsible for providing all financial reports to the Chapter membership at duly called chapter meetings, per Title 26 N.N.C. § 1001(B)(3)(I). In addition, the financial report presentation should be documented in the meeting minutes.

Condition: For our review, 4 of 12 months of chapter meeting minutes were examined and the following exceptions were noted:

Type of Exception	No. of Exceptions
AMS did not generate monthly financial reports for the CSC and Officials.	2 of 4 (50%)
Secretary/Treasurer did not document detailed financial reporting in the meeting minutes.	4 of 4 (100%)
Financial reports were not attached to the meeting minutes.	4 of 4 (100%)

The Secretary/Treasurer reported the fund balances for the months of February and March 2021. However, fund balances do not explain financial details of revenues, expenditures, assets, and liabilities. Overall, the Chapter is not providing detailed financial reports at duly called chapter meetings. The Administrative Service Center did confirm the CSC is in the process of being trained to post their financial reports on the Chapter’s website for public viewing.

Effect: Without financial reports, the Chapter membership is unaware of the Chapter’s financial activities and cannot make informed financial decisions.

Cause: The Chapter disregarded practices of providing monthly reporting per Navajo Nation Title 26. The CSC stated financial reports are provided to the Chapter Officials via email, however the Officials stated attachments to emails could not be opened or financial reports were not received.

- Recommendations:**
1. The CSC and Chapter Officials should obtain training from the Administrative Service Center on preparing financial statements and presenting these reports to the community membership.
 2. The CSC should provide financial statements to all the Chapter Officials and have them acknowledge receipt of the reports.
 3. The CSC should assist the Secretary/Treasurer in presenting the balance sheet, income statement and budget to actual financial statements.

4. The Secretary/Treasurer should document the detailed financial report presentation in the meeting minutes, attach the financial statements, and have the Chapter staff post to the Chapter's website for public viewing.

FINDING VI: Inaccurate filing of IRS Form 941 resulted in a \$1,387 tax liability.

Criteria: Internal Revenue Service (IRS) regulations require payroll taxes collected during a month to be deposited to the bank by the 15th day of the following month. IRS tax reporting must be filed each quarter and are due by the end of the month of the following month. Non-compliance could result in penalties.

Condition: In the absence of an AMS, the CSC is the primary person for ensuring that timely reports and deposits are made. For the review period, the Chapter submitted one monthly deposit three days late which could result in penalties by the IRS. Although quarterly reports were completed on time by the CSC, the December 2020 quarterly report was erroneous because exempt chapter stipends were inadvertently taxed for Social Security and Medicare resulting in a tax liability of \$1,387.

The Chapter received a notice from the IRS for overdue taxes for fiscal year 2018 and 2019. The penalties owed to the IRS was \$5,033 of which \$3,041 was paid by the Chapter. The remaining balance of \$1,993 was not paid which may include penalties for failure to pay to the IRS.

Effect: The Chapter incurred unnecessary IRS penalties for erroneous reporting and late payments. Chapter funds to pay the IRS penalties could have been used for other purposes.

Cause:

- The former AMS was the primary preparer of the 941 tax reports. As a result, the CSC became the preparer and is not fully aware of how to complete the 941 tax reports.
- The Chapter Officials and Administrative Service Center did not prioritize monitoring of the CSC to ensure accurate IRS payroll taxes were remitted and reported on time.

Recommendations:

1. The CSC and Officials should request for training from the Administrative Service Center on the payroll tax process.
2. The CSC should remit overdue reports, tax payments and any other fines/penalties to IRS as soon as possible.
3. The Chapter Officials should periodically review the Chapter financial statements to verify tax liabilities are being paid by the due dates to avoid unnecessary penalties.
4. Administrative Service Center should review the CSC's work to make sure IRS tax reports are accurate and monthly deposits are made timely.

FINDING VII: Chapter does not comply with Arizona State Unemployment regulations.

Criteria: FMS Fiscal Policies and Procedures, Section VII.2.H.i. states the Chapter shall participate in the State Unemployment Compensation Act Fund. The Chapter is responsible for submitting the requisite contribution to the Arizona Department of Economic Security on a quarterly basis.

Arizona Department of Economic Security requires employers to register to establish an account, report all wages and pay unemployment taxes for each employee.

Condition: For the 12-month review period, the Chapter has yet to register with the Arizona Department of Economic Security. As a result, unemployment taxes for temporary employees are not reported and payments are not submitted on a quarterly basis.

Effect: The Chapter could be liable to pay unemployment benefits if employees are determined eligible to receive these benefits.

Cause: The CSC and Officials were unaware the Chapter was required to report wages and pay state unemployment taxes. The Administrative Service Center stated the Chapter was informed to establish an account with Arizona Department of Economic Security and to remit reports and payments but no documentation was provided to substantiate this claim.

- Recommendations:
1. With the assistance of the Administrative Service Center, the CSC should contact Arizona Department of Economic Security to set up an account.
 2. The CSC should report wages and pay unemployment taxes for the temporary employees. Until an AMS is hired, the CSC should seek assistance from Administrative Service Center to review applicable reports for accuracy before remitting.
 3. The Chapter Officials should review the monthly chapter financial statements to verify tax liabilities are being paid by the due dates to avoid unnecessary penalties.

FINDING VIII: Chapter lacks adequate controls over heavy equipment rental.

Criteria: Property Policies and Procedures, Section XI.A. states no chapter property or equipment shall be loaned or rented without the CSC's approval on a chapter house/equipment usage form. And the chapter shall also require a deposit to cover damage or loss. The AMS shall make sure all documents and information regarding the rental policies is transmitted and understood by the lessee.

Rough Rock Chapter Plan of Operation for Dump truck and Backhoe, Section IX. states the following:

- Rental fees: Hourly Rate for Truck \$60.00 per day and heavy equipment \$75.00 per day for registered chapter members.
- Person or organization upon approval for equipment use, is the Lessee of the equipment only for the project and time approved.
- The AMS should collect any rental fee before use of the equipment.
- The rental money should not be used for any personal expenses or purposes.
- The Chapter should purchase insurance coverage for vehicles and accessories every year.
- The Chapter should be responsible for routine maintenance and repair of the Truck, Equipment, and accessories based on normal wear and tear, provided there was no misuse or abuse by the Driver.
- The Driver should carry out routine equipment/vehicle inspections as recommended by the Truck and Equipment manuals.
- The Truck and Equipment should be kept on the Chapter house premises or at another safe location as designated by the CSC or Manager.
- Driver should document activities for monthly reports to be given at the Chapter Planning Meeting.

Condition:

Although the plan of operation for the backhoe and dump truck addresses controls to safeguard and account for the use of the heavy equipment, the plan of operation was not supported with a chapter resolution as an approved document.

For the audit period, 11 backhoe rental transactions were examined and the following deficiencies were found:

- Four renters did not complete the equipment rental usage form.
- Equipment rental usage form did not have liability insurance attached.
- Heavy equipment operator did not sign the rental agreements.
- Assigned driver did not conduct inspection of the backhoe before and after use.
- Deposit was not collected prior to the use of the backhoe.
- There are four rental forms being used by the Chapter that disclose different tax rates and liability statement was inconsistent.
- No maintenance schedules were established for the backhoe.
- There are standard fees for backhoe rental but the Chapter does not charge for backhoe usage during burial services. The CSC acknowledged the heavy equipment operator, who operates the equipment on a volunteer basis, may receive monetary payments from renters for his assistance. The monetary payments received by the operators are not accounted for by the Chapter.
- It is questionable of how many keys exist for the equipment. CSC confirmed the operators have keys and the Chapter had to order two new sets of keys.

Effect: In the absence of adequate controls, the Chapter cannot provide reasonable assurance the backhoe and other heavy equipment owned by the Chapter are properly safeguarded and maintained by the various operators. This poses a risk for misuse of assets or potential liability of the Chapter.

Cause: Despite the plan of operation for its backhoe and dump truck, the CSC and Officials do not adhere to the requirements outlined in the plan as well as the property policies and procedures.

Recommendations:

1. The CSC and Officials should obtain community membership approval for the plan of operation for the backhoe and dump truck.
2. The CSC should ensure the driver inspects the equipment when returned, and complete the heavy equipment inspection form with signatures.
3. The Chapter should provide a policy disclaimer absolving the Chapter from any responsibility for operators collecting monetary payments for volunteer services.
4. The Chapter Officials should monitor the CSC and her work activities to make sure chapter assets are managed and safeguarded in accordance with the plan of operation and the property policies and procedures.

FINDING IX: Chapter does not verify credentials of volunteers who operate Chapter heavy equipment.

Criteria: FMS Property Manual Section X. states the following:

- a. Only the Chapter designated operators will operate the Chapter equipment.
- b. The driver will have an appropriate license (Commercial Driver's License (CDL)) or certified operator of heavy equipment in his/her possession.
- c. The driver/operator will be responsible for damages on the vehicle and equipment.
- d. The driver/operator must carry license, equipment titles, insurance card and other documents while in his/her care.

Condition: The Chapter does not employ a heavy equipment operator. Rather, the CSC stated the Chapter requires heavy equipment renters to identify an operator for the use of the backhoe.

Records showed the Chapter did not verify each operator was qualified to operate the heavy equipment. There was no evidence that operators provided proof of CDL licenses or other competency test before they were allowed to operate the heavy equipment. For the audit period, six heavy equipment operators were identified that operated the Chapter's backhoe for burial services. The Chapter did not ensure all six operators had a current CDL. The Chapter also did not require the equipment renters to provide proof the operators they retained were qualified operators.

The CSC claimed the backhoe was damaged three times, twice by the same operator. However, there was no indication the Chapter held this operator responsible for the damages as required by policies and procedures. Also, the CSC did not provide invoices for the repair and damages and applicable costs.

Effect: There is a risk for injury or death if operators who are not qualified or certified are allowed to operate heavy equipment and an accident should occur while operating the equipment. The Chapter can be held liable for such instances.

Cause: The CSC and Chapter Officials do not understand the risks to ensure qualified certified operators are important when using the Chapter's backhoe and other heavy equipment.

Recommendations:

1. The Chapter should consider hiring an operator as an on-call temporary employee to ensure the heavy equipment are safeguarded from misuse and damages.
2. Otherwise, the Chapter should allow only qualified operators to operate the heavy equipment.
3. The CSC should verify operator credentials before approving heavy equipment rental.

FINDING X: Chapter's hiring practices are questionable.

Criteria: Transportation and Community Development Committee (TCDC) PEP Policies and Procedures Section III.N. states for each project, the Chapter shall post notice that the Chapter is accepting applications and the Chapter shall select participants based on experience, skill and qualifications for the designated project.

Emergency Navajo Nation Chapter Plan dated March 25, 2020 states only essential services including water hauling services, solid waste management services, coal/wood/hay services, food and supply storage or delivery services and U.S. mail services can be provided during the Navajo Nation Government closure. All approved chapter volunteers must sign a "Release and Waiver of Liability" form.

Condition: For the 12-month audit review, four laborers and three essential workers were hired as temporary employees and were paid with PEP funds totaling \$6,785. Test work revealed the following exceptions:

- The laborer position was not advertised.
- All 7 employees were not interviewed when they applied.
- 4 of 7 temporary employees started employment during Navajo Nation Government shutdown.

Furthermore, the CSC claims she was not part of the hiring process for the employees hired in March 2020 since she was on administrative leave per the Executive Order 001-20 for the Covid-19 pandemic which closed the Navajo Nation Government including Navajo Nation Chapters. The Emergency Chapter Plan specifies only essential services were to be provided by the Chapter, however, the Chapter hired four temporary workers for a fencing conservation project. The Chapter Officials also stated these temporary workers should not have been paid since they were considered volunteers to assist the Grazing Official with his conservation project.

Effect: The Chapter cannot provide assurance that its employees are qualified, properly hired, and authorized to be employed and receive wages.

Cause: The CSC and Officials are not effectively communicating and as a result, they provided conflicting representations of how these temporary employees were hired using PEP funds.

Recommendations:

1. The Chapter staff and Officials should adhere to PEP policies and procedures and Emergency Navajo Nation Chapter Plan.
2. The Chapter should obtain training on personnel and recordkeeping policies and procedures from the Administrative Service Center.

FINDING XI: Contractors are hired contrary to procurement policies and procedures.

Criteria: Navajo Nation Procurement Rules and Regulations and the Navajo Business Opportunity Act (NBOA) require non-certified chapters to adhere to bidding procedures when procuring a contractor and requires the following by the Chapter for small purchases of \$50,000 or less:

- Prepare Request for Proposal for public advertisement.
- Conduct proposal opening and bid evaluation for each responder.
- Notify successful bidder for proposal Award.
- Prepare contract document to obtain signature from successful bidder.
- Obtain current certificate of liability from the successful bidder.
- Submit contractual service documents for review through Navajo Nation review and signature of Navajo Nation President.

Condition: During the 12-month audit review, four contractors were paid \$326,407 for chapter renovation, road construction, repair of the Chapter's backhoe, and electrical line installation. However, as a non-certified chapter, the Chapter did not comply with the Navajo Nation Procurement Rules and Regulations and NBOA in the hiring of contractors. Specifically, our test work revealed the following:

Type of Exception	No. of Exceptions
No Request for Proposals (RFP) on file.	2 of 4 (50%)
No bid tabulation sheet completed.	2 of 4 (50%)
Contracts were not properly reviewed and signed by the Navajo Nation President.	2 of 4 (50%)
Contractor's proof of certificate of liability was not verified.	2 of 4 (50%)

Effect: There is a risk that the Chapter hired an unqualified contractor at a potentially higher cost and for services that may not have adequately benefited the Chapter. In addition, the Chapter cannot provide assurance it selected the contractors in a fair, unbiased manner.

Cause: The Chapter did not seek advisement and guidance from the Administrative Service Center or Department of Justice to determine if the repairs and maintenance services for the backhoe and electrical line installation should have been procured as contractual services.

Recommendations:

1. The Chapter should seek the advisement and guidance of the Administrative Service Center or Department of Justice on contractual agreements and when they are appropriate.
2. The Chapter administration should procure professional services using the Navajo Business Opportunity and Procurement Act to select qualified contractors at the most economical prices.
3. The Chapter administration and Officials should seek training from the Administrative Service Center on the proper procedures for procuring professional services for non-certified chapters.

FINDING XII: A contractor was paid \$850 for work that could not be verified.

Criteria: Navajo Nation Procurement Rules and Regulations, Section IV.J. states the payment process should start at the conclusion of the project. The Chapter should verify the service rendered is satisfactory according to the contract. The Chapter is to document the services performed and their completion using progress reports. For the payment process, the fund approval form, invoice, payment, and receiving report to the vendor are needed.

Condition: During the audit period, contractual services were rendered for an installment of electrical line for housing wiring totaling \$850. Although there were no progress reports to verify the contractor provided the services in full and to the satisfaction of the Chapter, the CSC paid the contractor.

Effect: There is a risk the Chapter paid the contractor for unmet deliverables or unsatisfactory work.

Cause:

- The CSC and Officials do not fully understand the Navajo Nation procurement rules and regulations in terms of managing contracts.
- The CSC has not been allowed to conduct onsite monitoring of chapter projects by the Chapter Officials and remains in the office to avoid conflict.

Recommendations:

1. The Chapter administration and Officials should seek additional training from Administrative Service Center or Department of Justice on the procurement rules and regulations to understand the importance of contract deliverables.
2. The CSC should confirm deliverables with reports or site visits prior to processing payment of contractor invoices.

FINDING XIII: Bank signatory card is not updated.

Criteria: Title 26 Navajo Nation Local Governance Act §1004 states the CSC shall co-sign all chapter checks. FMS Fiscal Policies and Procedures, Section IV. states Secretary/Treasurer shall co-sign checks along with the CSC. In the event the Secretary/Treasurer is unavailable, the Chapter President or Vice President may co-sign checks. Any such co-signatures by the Chapter President or Vice President shall require justification memorandum.

Condition: The current CSC was hired in July 2018. Although Navajo Nation law requires the CSC to be co-signing checks, the current CSC is not on the bank signatory card. The Chapter President and Vice President are co-signing checks without justification memorandum. Lastly, the bank signatory card was last updated on December 1, 2015 and as a result, the former CSC still remains on the bank signatory card.

Effect: Without proper oversight, unauthorized check signers can transfer funds, issue payments, and conduct other bank business that may result in theft or fraud.

Cause: The CSC and Officials were unaware the former CSC was still on the bank signatory card. The Officials stated they will work on updating the bank signatory by removing the former CSC and adding the current CSC.

Recommendations:

1. The Chapter should update the bank signatory card and add the current CSC to the bank signatory card.
2. The Chapter President and Vice-President should only co-sign checks when the primary co-signer is unavailable and should have a justification memorandum before co-signing checks.
3. The CSC and Officials should comply with Local Governance Act provisions regarding check signing.

FINDING XIV: Poor working relationship between Chapter administration and Officials affects chapter operations.

Criteria: The Chapter administration and Officials are required to work together to provide services to the Chapter members. The administration is responsible for meeting the tasks required of their positions and the Officials are required to carry out the decisions of the Chapter members and not hinder those decisions in anyway. Title 26 outlines the duties and responsibilities of the elected Chapter Officials and the Chapter administration.

Condition: For the 12-month review, the CSC and Officials disagreed over chapter decision making, roles and responsibilities, and sharing of information. Based on the inquiries and review of documentation, the following deficiencies were identified with chapter operations:

- Non-compliance with IRS and Arizona Department of Economic Security regulations.
- Chapter property was not insured for several fiscal years and was addressed during the audit in 2021.
- Property inventory is missing pertinent information and not all property and equipment are accounted for.
- Services for electrical and repair and maintenance did not have signed Navajo Nation Professional Service contracts.
- Financial reports are not provided by the Secretary/Treasurer.
- Fixed assets are not reported on the balance sheet.
- The CSC is not signing the fund approval forms a majority of the time for disbursements.
- Review of the bank signatory card found the current CSC is not on the bank signatory card for the Chapter's checking account.
- Formal agreement is not in place to store newly Navajo Nation purchased grader and backhoe on the local school premises.
- Temporary employees were not hired according to the PEP policies and procedures.
- Internal policies and Five Management System policies and procedures have not received community membership approval.

Effect: Disagreements among the administration and Officials led to disruption, delays and inefficiencies in the Chapter operations and delivery of services to the community membership.

Cause:

- In the absence of an AMS, there are no clear procedures on how Officials are to review the CSC's work.
- The CSC and Officials have a conflict of interest due to family ties to the Chapter President and Secretary/Treasurer.

- The Chapter Officials are not abiding by their roles and responsibilities as outlined in Title 26 to avoid direct involvement in the management and operations of the Chapter administration.

- Recommendations:
1. The Chapter administration and Officials should request for training and assistance from the Administrative Service Center on Navajo Nation and chapter policies and procedures.
 2. The Chapter Officials should use the monitoring tool form to monitor the Chapter staff's work and acknowledge the form.
 3. The Chapter, with the assistance of the Administrative Service Center, should hire an AMS to properly segregate the duties and responsibilities of the Chapter administration.

CONCLUSION

During the audit period, control discrepancies were identified within key chapter processes. The Chapter property was not routinely inventoried and recordkeeping needs improvement. Insurance coverage for chapter property and equipment was not obtained timely. The Chapter lacked safeguard measures to protect property and equipment. The Chapter fixed assets are not reported on the balance sheet. The financial reporting was not provided at duly called chapter meetings. There was inaccurate filing of IRS Form 941 resulting in a \$1,387 tax liability and the Chapter did not comply with Arizona State Unemployment regulations. The Chapter lacked adequate controls over heavy equipment rental and did not verify the credentials of volunteers who operate chapter heavy equipment. The Chapter's hiring practices are questionable. Contractors are hired contrary to procurement policies and procedures and a contractor was paid \$850 for work that could not be verified. The Chapter's bank signatory card was not updated and as a result, the former CSC is still on the signatory card. Furthermore, there is a poor working relationship between Chapter administration and Officials which is affecting chapter operations.

BACKGROUND

The Navajo Nation Office of the Auditor General has conducted a Special Review of the Rough Rock Chapter for the 12-month period of April 1, 2020 to ending March 31, 2021.

The Rough Rock Chapter is a political subdivision of the Navajo Nation and is considered a general-purpose local government for reporting purposes. The local chapter government is managed by the Community Services Coordinator with administrative support provided by the Accounts Maintenance Specialist. 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 Community Services Coordinator has been with the Chapter since July 2018 and the former Accounts Maintenance Specialist resigned on November 6, 2020.

The Rough 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 Rough 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 annual appropriations from the Navajo Nation central government. These appropriations are intended to fund direct and indirect services at the local chapter government level. Funds for direct services are considered restricted funds with specific intended purposes. Other revenue is generated from miscellaneous user charges assessed by the Chapter for services and/or goods provided to its community members. Rough Rock Chapter's fiscal year 2021 operating budget was approximately \$890,094 which includes carryover funds from the prior year.

OBJECTIVE, SCOPE, AND METHODOLOGY

The Office of the Auditor General conducted a Special Review of the Rough Rock Chapter pursuant to the authority vested in the Office of the Auditor General by Title 12 N.N.C., Chapter 1, § 1 - 10.

The following sub-objectives were established to address the main audit objective for this audit:

Determine if controls are functioning as designed to ensure:

1. Chapter maintains a property inventory, property is safeguarded on chapter premises and property is adequately insured.
2. Chapter reported fixed assets in the financial statements.
3. Chapter staff prepares monthly financial reports and the Secretary/Treasurer presents these reports to the community membership at duly called chapter meetings.
4. Chapter complies with IRS regulations for payroll tax remittance and reporting.
5. Chapter complies with AZ DES regulations for unemployment tax remittance and reporting.
6. Chapter heavy equipment usage complies with FMS Property policies and procedures.
7. Chapter temporary workers were hired in accordance with PEP policies and procedures.
8. Chapter hired contractors in accordance with Navajo Nation Procurement Rules & Regulations.
9. Chapter bank signatory card is managed accordingly to the FMS Fiscal policies and procedures.
10. Chapter administration and Official's roles and responsibilities complies with Title 26.

The audit covers activities for the 12-month period of April 1, 2020 to March 31, 2021.

In meeting the audit objectives, we interviewed the Chapter staff and Officials, and examined available records. More specifically, we tested samples of expenditures, property items, rental transactions, and reports for internal controls and compliance requirements by using a non-statistical, judgmental method.

GOVERNMENT AUDITING STANDARDS

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The Office of the Auditor General expresses its appreciation to the Rough Rock Chapter staff and Officials for their cooperation and assistance throughout the audit.

CLIENT RESPONSE



The Navajo Nation
Tse'Chi'Zhi Chapter
PO Box 4344, Chinle, AZ 86503

Betty Dailey, President
Jay R. Nez, Vice-President
Sylvia Hadley, Sec./Treasurer
Lorene Yazzie, Grazing Representative
Carl Roessel Slater, Council Delegate
Sheila King, Community Service Coordinator
Vacant, Accountant Maintenance Specialist

Telephone: (928) 728-3361 or Fax: (928) 728-3362

Jonathan Nez
President

Myron Lizer
Vice-President

September 29, 2021

Helen Brown, CFE Principal Auditor
Delegated Auditor General
Navajo Nation Office of Auditor General
PO Box 708
Window Rock, AZ 86515

Dear Ms. Brown:

We are in receipt of your final draft of the Special Review of Rough Rock Chapter, dated September 16, 2021. Rough Rock Chapter has reviewed the audit findings and agreed to the audit findings and will begin the process of Corrective Action Plan based on the recommendations made by your office within thirty (30) days.

If you should have any questions, please feel free to contact the Rough Rock chapter at (928) 728-3361 or by email at roughrock@navajochapters.org.

Sincerely,

A handwritten signature in cursive script, appearing to read "Sheila King".

Sheila King
Community Service Coordinator
Rough Rock Chapter

XC: Betty Dailey, Chapter President
Sylvia Hadley, Chapter Secretary/Treasurer
Jay R. Nez, Chapter Vice-President
Carl R. Slater, Council Delegate
ROUGH ROCK CHAPTER
Sonlatsa Jim-Martin, Department Manager II
Edgerton Gene, Senior Program & Project Specialist
ADMINISTRATIVE SERVICE CENTER/DCD