

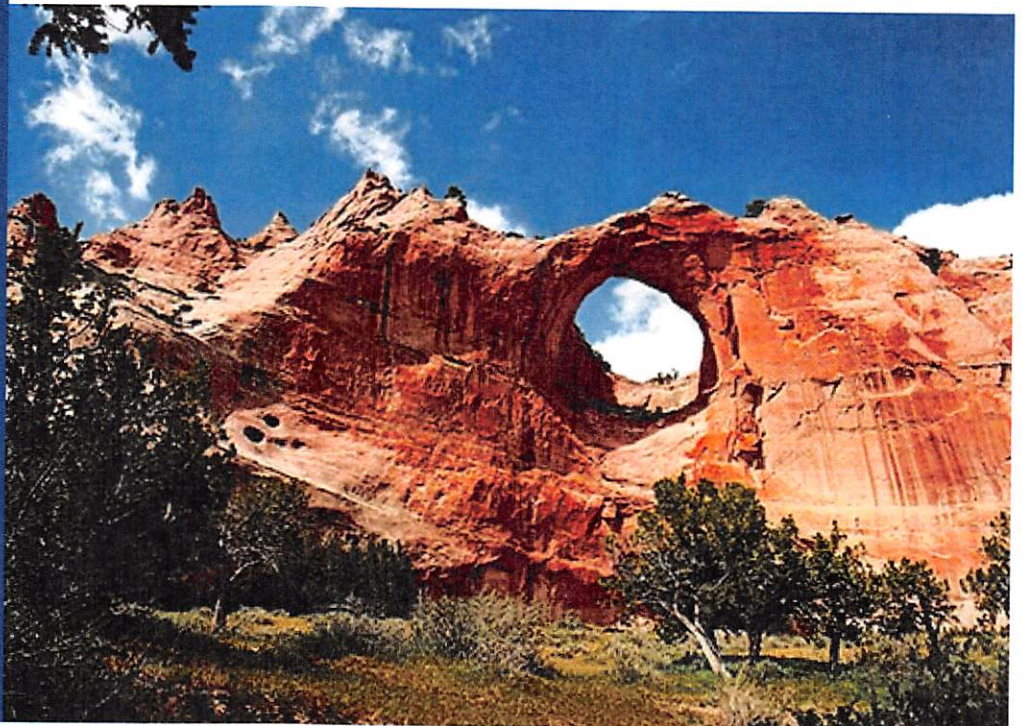
OFFICE OF THE AUDITOR GENERAL

The Navajo Nation

A 2nd Follow-up Review of the Office of the Controller FMIS Vendor Address Book Corrective Action Plan Implementation

**Report No. 21-25
September 2021**

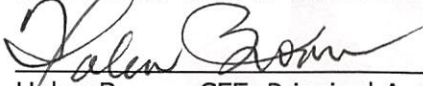
**Performed by:
REDW LLC**



M-E-M-O-R-A-N-D-U-M

TO : Elizabeth Begay, CIA, CFE, Acting Controller
OFFICE OF THE CONTROLLER

: Gerald Shirley, Accounting Manager
Accounts Payable / P-Card Services
OFFICE OF THE CONTROLLER

FROM : 
Helen Brown, CFE, Principal Auditor
Delegated Auditor General
OFFICE OF THE AUDITOR GENERAL

DATE : September 30, 2021

SUBJECT : Audit Report No. 21-25, A 2nd Follow-up Review of the Office of the
Controller FMIS Vendor Address Book Corrective Action Plan
Implementation

BACKGROUND

The Office of the Auditor General (OAG) conducted an audit on the Office of the Controller (OOC) FMIS vendor address book and the audit report was issued July 2014. The OOC developed a corrective action plan (CAP) and the Budget and Finance Committee (BFC) approved the audit report and CAP per resolution no. BFO-33-17 on October 2014. Hereafter, a follow-up audit on the implementation of the CAP was completed and the audit report was issued June 2017. Although the OOC did not fully implement the CAP at that time and the Auditor General recommended sanctions be imposed, the BFC approved to extend the CAP implementation period for OOC to February 14, 2018 per resolution no. BFO-33-17.

OBJECTIVE AND SCOPE

The objective of this review is to determine the status of the corrective action plan implementation based on a six-month review period of January 1, 2019 to June 30, 2019. REDW LLP was engaged to perform this 2nd follow-up review of the OOC FMIS Vendor Address Book CAP implementation.

SUMMARY

Of 11 corrective measures, the Office of the Controller implemented 1 (9%) corrective measure, leaving 10 (91%) not implemented. See attached Exhibit A for the detailed explanation of the follow-up results.

CONCLUSION

Title 12, N.N.C. Section 8 imposes upon the Office of the Controller the duty to implement the corrective action plan according to the terms of the plan. As of this 2nd follow-up review, the OOC did not fully implement the CAP. Therefore, the audit issues remain unresolved.

With the BFC approved CAP extension, the OOC had ample opportunity to implement the CAP to address the audit issues pertaining to the FMIS Address Book. On the other hand, the OOC has been occupied with administering the relief funds provided to the Navajo Nation in response to the COVID-19 pandemic. Considering this, the Auditor General shall:

1. Grant the OOC a six-month extension from the date of this report to continue implementing its corrective action plan.
2. Conduct continuous auditing of the FMIS Vendor Address Book during the six-month extension.
3. Conduct a 3rd follow-up review after March 2022 and based on those results, provide an appropriate recommendation in accordance with 12 N.N.C. Section 9 (b) and (c).

We thank the Office of the Controller for assisting in this follow-up review.

xc: Paulson Chaco, Chief of Staff
OFFICE OF PRESIDENT/VICE PRESIDENT
Jamie Henio, Chairperson
BUDGET AND FINANCE COMMITTEE
Chrono

The 2nd Follow-up Review of the Office of the Controller FMIS Vendor Address Book Corrective Action Plan Implementation

Executive Summary

Helen Brown, Delegated Auditor General
Office of the Auditor General – Navajo Nation

The Navajo Nation Office of the Auditor General conducted a Follow-up Review in June 2017, audit report no. 17-40, on the Navajo Nation Office of the Controller (OOC) Financial Management Information System (FMIS) Vendor Address Book (AB) Corrective Action Plan (CAP) implementation. The 2017 Follow-Up Review was conducted with the objective to determine whether OOC implemented its CAP for the FMIS Vendor AB internal audit initially conducted in July 2014. The 2017 follow-up review determined that the OOC did not fully implement its corrective action plan and consequently, the Auditor General recommend sanctions be imposed. However, per resolution no. BFO-33-17, the Budget and Finance Committee (BFC) approved to extend the CAP implementation period for OOC to February 14, 2018.

REDW was engaged to perform a follow-up internal audit based on audit report no. 17-40. The scope of this engagement covered the period of January 1, 2019 through June 30, 2019. REDW was informed that since the issuance of the initial audit report, there was a change in several key OOC management positions.

To gain an understanding of the processes and controls in place, we interviewed selected personnel (Management), reviewed policies and procedures, and performed testwork on AB records. Through inquiry and observation, we analyzed the procedures and controls in place that help mitigate the risk of the creation of multiple AB numbers for vendors and employees within FMIS. We selected a sample of individuals who were classified as both an employee and a vendor to determine if the accounts payable (AP) section had the required documents for these individuals to be paid as both an employee and a vendor. We sampled from the FMIS AB to find duplicate employee records, duplicate vendor records, any unused vendor records, and vendor records without a tax identification number (tax ID).

SUMMARY OF THE FOLLOW -UP RESULTS

Although the OOC made improvements to the FMIS AB since the issuance of report No. 17-40, there were several significant areas where the CAP was not implemented, leaving several issues unresolved. The following CAP areas were not implemented based on our audit.

- Integrated programs such as Human Resources Information System (HRIS) and Data Port have the ability to create new AB numbers, which is out of the control of the OOC. In response to this, the OOC has designed controls to help curtail the risk of the creation of additional AB numbers. However, the rate at which new AB numbers are created exceeds the staffing resources allocated to controlling this risk.
- An AB manager was not hired due to the lack of funding, which per management, caused a delay in implementing major projects to assist and oversee the modifications of the FMIS AB database. As a compensating control, the OOC has implemented an internal review process that is being overseen by AP personnel.
- Payments were made to vendors without a tax ID on file, which is not in accordance with the AP policies and procedures.
- Vendors were set up and paid without an Internal Revenue Service (IRS) Form W-9, which is required by both the AP policies and procedures and by IRS regulations.

CONCLUSION

Title 12, N.N.C. Section 8 imposes upon the Office of the Controller the duty to implement the corrective action plan according to the terms of the plan. As of this 2nd follow-up review, the Office of the Controller did not fully implement the CAP. Therefore, the audit issues remain unresolved.

With the BFC approved CAP extension, the Office of the Controller had ample opportunities to implement the corrective action plan to address the audit issues pertaining to the FMIS Vendor Address Book. On the other hand, the Office of the Controller has been occupied with administering the relief funds provided to the Navajo Nation in response to the COVID-19 pandemic. Therefore, REDW and the Delegated Auditor General concur to the following:

1. Grant the Office of the Controller a six-month extension from the date of this report to continue implementing its corrective action plan.
2. Conduct continuous auditing of the FMIS Vendor Address Book during the six-month extension.
3. Conduct a 3rd follow-up review after March 2022 and based on those results, provide an appropriate recommendation in accordance with 12 N.N.C. Section 9 (b) or (c).

REDW LLC

Phoenix, Arizona
September 30, 2021

REDW CONTACT INFORMATION

Wesley Benally, Senior Manager
(602) 739-0543
wbenally@redw.com

The 2nd Follow-up Review of the Office of the Controller FMIS Vendor Address Book Corrective Action Plan Implementation

Table of Contents

	<u>Page</u>
Exhibit A - Review Results.....	1
Attachment A.....	2
Attachment B.....	6

REVIEW RESULTS

The 2nd Follow-up Review of the Office of the Controller FMIS Vendor Address Book
 Corrective Action Plan Implementation

Review Period: January 1, 2019 to June 30, 2019

Audit Issues	Total of Corrective Measures	# of Corrective Measures Implemented	# of Corrective Measures Not Implemented	Audit Issue Resolved?	Review Details
1. Duplicate vendor records	11	1	10	No	Attachment A
2. Duplicate employee records				No	
3. Vendor records without a tax ID number				No	
4. Unused vendor records were not archived				No	
5. Access to the FMIS AB needs improvement				No	
6. Duplicate payments				No	
TOTAL:	11	1	10	0- Yes 6 - No	

WE DEEM CORRECTIVE MEASURES: **Implemented** where the OOC AP provided sufficient and appropriate evidence to support all elements of the implementation; and **Not Implemented** where evidence did not support meaningful movement towards implementation, and/or where no evidence was provided.

◆ 2019 STATUS	Issue 1: Duplicate vendor records. NOT RESOLVED
<p>The FMIS AB was provided for analysis to identify or detect any instance of the duplication of vendor records based on specific criteria. Based on the FMIS AB provided for analysis, the following items were identified:</p> <ul style="list-style-type: none"> • Based on the analysis, 4,782 vendor records had the same tax ID number with either a different business address or personal addresses which is an decrease of 2,500 from the prior follow-up review. See Attachment B, Table 1(b). • The Human Resource Information System (HRIS), utilized by the Navajo Nation Department of Personnel Management (DPM), and Data Port, utilized by various programs within the government, have the ability to create new AB vendors outside the control of the OOC. Based on the analysis of the FMIS AB there were 189,867 vendors records. See Attachment B, Table 7. <p>OOC is making the effort to modify and update the FMIS AB, however, there are still a high number of duplicate vendor records. To address the vendor duplication risk generated by Data Port, the OOC AP department was working with the Office of Navajo Nation Scholarship and Financial Assistance (one of the departments that uses Data Port), as a pilot project, to determine a reasonable and realistic approach to mitigate and control the creation of new AB numbers through training and consistent monitoring.</p> <p>Additionally, as a control, the "VX" process was established where certain FMIS AB users with administrative rights are able to mask AB numbers, which hides the incorrect AB number from general AB users in the FMIS AB. This aids in the prevention of duplicate payments, as the hidden AB numbers are not visible to the general AB users when processing a payment. Management worked with the FMIS consultant to design and implement this preventative control which is identified within the OOC policy and procedures under File Maintenance Procedures. Lastly, AP emphasizes the use of a special payee factor in conjunction with the identification of parent child relationships within FMIS to identify vendors with identical tax ID and different addresses to mitigate additional vendor records being generated.</p> <p>Although, some improvements were made by OOC, there is still a large number of duplicate vendors records that pose the risk for duplicate payments. OOC is aware of the large number of vendor records and will continue to monitor and develop controls to mitigate the risk of duplicate payments given the limited resources to perform this task.</p>	

◆	Issue 2:
2019 STATUS	Duplicate employee records. NOT RESOLVED
<p>An analysis of the FMIS AB was performed to identify duplicate employee records whereby employees are be classified as employees and simultaneously as vendors. Based on the analysis, the following was determined:</p> <ul style="list-style-type: none"> • Zero employees were found with multiple AB numbers. This is an improvement from the prior analysis, which found 6 employees who had more than one AB number. See Attachment B, Table 2(a). • The FMIS AB was filtered to search for records of employees who were assigned the search type "E" for employee, but also had at least one record in the AB database assigned to the search type "V" for vendor. This resulted with 95 employees, of which we selected a random sample of 10 payments (about 10% of the population). A request for IRS Form W-9's for the 10 payments to verify it was appropriate for the employee to also be classified as a vendor. 5 of the 10 payments did not have an IRS Form W-9 on file with AP or their corresponding departments or programs. This unresolved issue allows for the possibility of paying employees as vendors, when they do not have an IRS Form W-9 on file, which is required by both IRS regulations and by AP's policies and procedures in order to be paid as a vendor. • HRIS, utilized by DPM, has the ability to create new employee vendor records outside the OOC vender creation process. Although AP can make new AB records, AP does not have the ability to create new employee records. The creation of employee AB numbers is initiated by DPM. AP has discussed this issue with DPM, but since DPM shares the same AB data table with AP through HRIS, DPM has exclusive ownership of records with the search type "E" for employee. This continues to be a risk for the creation of duplicate employee records and search types. See Attachment B, Table 2(b). The mitigation controls developed by management with respect to search type were not implemented into any training manual(s). <p>Although this issue is not resolved, OOC was able to decrease employee records in the FMIS AB who were assigned an additional search types from the prior analysis. OOC is aware of this issue and continues to monitor for duplicate employee records.</p>	
◆	Issue 3:
2019 STATUS	Vendor records without a Tax ID number. NOT RESOLVED
<p>An analysis of the FMIS AB was performed to identify vendors without a tax ID number. Each vendor should have a tax ID to identify a vendor or employee to aid in the administration of pertinent tax information, such as an IRS Form 1099. The following was identified based on our testwork and as a result, this issue remains unresolved.</p>	

- 9,439 vendor records within the FMIS AB did not have a tax ID associated with the vendor, a decrease of 2,594 from the previous CAP follow-up review. See Attachment B, Table 3. During the period January 1, 2019 to June 30, 2019, it was determined that payments made to vendors without Tax ID numbers totaled \$1,892,346.

In addition, since users of Data Port are independent of the OOC, it is difficult for OOC to prevent the creation of new vendors records that do not have a Tax ID number. OOC will rely on, as a preventative control, the VX process to limit this risk. Given the large number of vendors without a tax ID number, there is a continued risk of making disbursements to vendors without the required IRS tax information. OOC management is aware of this risk and will continue monitoring and obtain the required documentation.

◆	Issue 4:
2019 STATUS	Unused vendor records were not archived. NOT RESOLVED

A follow-up analysis was performed to determine the number of unused vendor records within the FMIS AB during the period January 1, 2019 through June 30, 2019.

- Based on the analysis of comparing AP disbursement activity against vendor records with the FMIS AB, there were 123,079 vendor records with no activity, and increase of 28,957. See Attachment B, Table 4.

Additionally, AP explained that it is not possible within the original set up of the FMIS AB to archive vendor records as there remains the risk of altering vendor records with the same tax ID, name, address or a combination of the information. As such, AP uses the VX process as a way to mitigate this risk.

This issue remains unresolved given the number of inactive vendors available for users to see in the FMIS AB.

◆	Issue 5:
2019 STATUS	Access to the FMIS AB needs improvement. NOT RESOLVED

This issue remains unresolved as there are currently five AP personnel with access to the AB, only two of the five users have VX permissions. The other three users have read access only. The policies and procedures do not address how many members should have access to the system. Although the overall access levels have decreased, the policies should clearly define the appropriate staff and staff level that should have access. Attachment B, Table 6 shows the number of FMIS security level users decreased by 19, to a total of 5, from the prior analysis.

◆ 2019 STATUS	Issue 6: Duplicate Payments. NOT RESOLVED
<p>A data search was performed for the period January 1, 2019 to June 30, 2019 to identify duplicate payments to vendors. Based on 105,792 AP disbursements to vendors within the FMIS AB, 5,929 transactions totaling \$117,229 were identified as possible duplicate payments. This was performed by filtering the payments by invoice number and amount for vendor payments. Through discussion and inquiry with multiple AP personnel, the Invoice Processing section of the policies and procedures address instances when there are no invoice numbers and how to avoid entering a duplicate payment. Based on those policies and procedures, AP personnel have guidance and direction to address exceptions during the process. Although the OOC has made strides to better internal controls over the vendor payment process, there is still a risk that duplicate payments will occur.</p>	

DATA ANALYSIS RESULTS

The following data tables summarize the comparison of the data analysis results from the 2014 initial audit report no. 14-11, the 2017 follow-up audit report no. 17-40, and the 2019 2nd follow-up audit report. These results further support the status of the corrective actions noted in the body of the report. Each data test involved a specific test objective.

Table 1 shows the comparison of the duplicate vendor records analysis results from audit report no. 14-11 and audit report no. 17-40 to the results from the current analysis of the FMIS AB:

Table 1
Duplicate Vendor Records Analysis
Initial 2014, Prior 2017, and 2nd Follow-up 2019

Test objective: *To verify if OOC decreased the number of duplicate vendor records in the FMIS AB.*

Analysis	2014	2017	2019	Change from 2017 - 2019
a. Unique vendors, based on tax ID number, were assigned more than 1 vendor record.	5,699	6,318	6,940	622 (Increase)
b. Duplicate vendor records were created where the vendor tax ID number was the same but the address field was different.	5,762	7,282	4,782	2,500 (Decrease)
c. Unique vendors were assigned more than one vendor record, although the vendor had the same name and address.	5,168	5,396	1,487	3,909 (Decrease)
d. Vendors with the same name and same physical address have more than one tax ID number assigned.	632	667	426	241 (Decrease)

Analysis	2014	2017	2019	Change from 2017 - 2019
e. Unique vendors, based on name and address, were identified where the vendor name and the physical address were the same, but multiple long address numbers (alternate vendor identification numbers) were assigned to these vendors creating additional vendor records.	2,389	2,755	1,366	1,389 (Decrease)
f. Vendor records with the same physical address were used by more than one vendor.	81,959	81,389	131,221	49,832 (Increase)

Table 2 shows the comparison of the duplicate employee records analysis results from audit report no. 14-11 and audit report no. 17-40 to the results from the current analysis of the FMIS AB:

Table 2
Duplicate Employee Records
Initial 2014, Prior 2017, and 2nd Follow-up 2019

Test objective: *To verify if OOC decreased the number of duplicate employee records in the FMIS AB.*

Analysis	2014	2017	2019	Change from 2017 - 2019
a. Employees were assigned more than one AB number.	12	6	0	6 (Decrease)
b. Employee records in the FMIS AB were also assigned additional search type.	2,770	2,750	2,403	347 (Decrease)

Table 3 shows the comparison of the duplicate vendor records without a Tax ID number analysis results from audit report no. 14-11 and audit report no. 17-40, to the results from the current analysis of the FMIS AB:

Table 3
Vendor Records without a Tax ID Number
Initial 2014, Prior 2017, and 2nd Follow-up 2019

Test objective: To verify if OOC decreased the number of vendor records without Tax ID numbers.

Analysis	2014	2017	2019	Change from 2017 - 2019
Based on vendor records that did not have a tax ID number.	13,004	12,033	9,439	2,594 (Decrease)

Table 4 shows the comparison of the unused vendor records not archived analysis results from audit report no. 14-11 and audit report no. 17-40 to the results from the current analysis of the FMIS AB:

Table 4
Unused Vendor Records Not Archived
Initial 2014, Prior 2017, and 2nd Follow-up 2019

Test objective: To verify if OOC decreased the number of unused vendor records not archived.

Analysis	2014	2017	2019	Change from 2017 - 2019
Based on no payments to vendors from fiscal year 2014 – June 30, 2019.	87,231	94,122	123,079	28,957 (Increase)

Table 5 shows the comparison of the potential duplicate payments analysis results from audit report no. 14-11 and audit report no. 17-40, to the results from the current analysis of the FMIS AB:

Table 5
Potential Duplicate Payments
Initial 2014, Prior 2017, and 2nd Follow-up 2019

Test objective: To verify if OOC decreased the number of potential duplicate payments.

Analysis	2014	2017	2019
Based on potential duplicate payments.	FY11 - \$881,461 FY12 - \$175,129 FY13 - \$76,318 FY14 - \$85,192	FY15 - \$536,734 FY16 - \$1,161,593	1/1/19 – 6/30/19 - \$117,729

Table 6 shows the comparison of the FMIS security level users analysis results from audit report no. 14-11 and audit report no. 17-40 to the results from the current analysis of the FMIS AB:

Table 6
Security Level Access Users
Initial 2014, Prior 2017, and 2nd Follow-up 2019

Test objective: To verify if OOC decreased the number of security level access users.

Analysis	2014	2017	2019	Change from 2017 - 2019
Action Security Level Users	34	24	5	19 (Decrease)

Table 7 shows a comparison of the total vendor AB records from audit report no. 14-11 and audit report no. 17-40 to the current analysis, and a summary of current vendor records based on key search types:

Table 7
Total AB Vendor Records
Initial 2014, Prior 2017, and 2nd Follow-up 2019

Test objective: *To verify if OOC decreased the number of vendor records in the FMIS AB.*

Analysis	2014	2017	2019	Change from 2017 - 2019
AB Vendor Records	171,768	192,871	189,867	3,004 (Decrease)

Search Type	Search Description	# of Vendor Records	Percent of Population
V	Suppliers	60,373	32%
E	Employees	5,489	3%
P	Participants	80,151	42%
VX	Hidden	2,850	1%
All others	All others	41,004	22%
TOTAL		189,867	100%