



OFFICE OF THE AUDITOR GENERAL

The Navajo Nation

**Internal Audit
of the
Navajo Nation
Fleet Management Department**


**Report No. 21-12
June 2021**

**Performed by:
GREENE FORENSIC
ACCOUNTING SOLUTIONS**



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

TO : Raymond Holyan, Department Manager II
FLEET MANAGEMENT DEPARTMENT

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

DATE : June 30, 2021

SUBJECT : Internal Audit of the Navajo Nation Fleet Management Department

The Office of the Auditor General herewith transmits Audit Report No. 21-12, An Internal Audit of the Navajo Nation Fleet Management Department (FMD). The internal audit was conducted, in conjunction with Greene Forensic Accounting Solutions LLP, to determine whether the Department's internal controls are functioning as intended to ensure proper accountability of Navajo Nation fleet assets during October 1, 2018, through March 31, 2020. The auditors reported the following seven (7) findings:

- Finding 1: FMD did not maintain supporting documentation for all of the vehicles in our audit sample.
- Finding 2: FMD supporting documentation of acquisitions and disposals is inconsistent.
- Finding 3: FMD does not verify damaged vehicle recovery efforts.
- Finding 4: FMD does not adhere to Navajo Nation Procurement Rules and Regulations when acquiring Navajo Nation Fleet.
- Finding 5: FMD did not verify that vehicles being received agreed with the purchase order.
- Finding 6: FMD lacks a formal delegation of authority matrix.
- Finding 7: FMD takes multiple years to dispose of vehicles.

Detailed explanation of the findings can be found in the body of this report. The report provides recommendations for remediation of the reported findings.

If you have any questions about this report, please contact our office at extension 6303. Thank you for your assistance in completing this audit.

xc: Tom Platero, Division Director
DIVISION OF GENERAL SERVICES
Paulson Chaco, Chief of Staff
OFFICE OF PRESIDENT/VICE-PRESIDENT
Daniel E. Tso, Chairperson
HEALTH, EDUCATION AND HUMAN SERVICES COMMITTEE
Chrono

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GREENE

Forensic Accounting Solutions LLP

REPORT LETTER

Helen Brown
Principal Auditor/Delegated Auditor General
Office of the Auditor General
Navajo Nation

Dear Ms. Brown:

Pursuant to our engagement letter with the Office of the Auditor General, Greene Forensic Accounting Solutions LLP (“GFAS”) hereby transmits the internal audit report of the Navajo Nation’s Fleet Management Department. GFAS conducted the internal audit to determine whether the Department’s internal controls are functioning as intended to ensure proper accountability of Navajo Nation fleet assets.

This audit’s scope was the Department’s fleet acquisitions/replacements, fleet disposal/resale, and fleet inventory processes for the 18 months from October 1, 2018, through March 31, 2020. The results of our audit include seven (7) findings. These findings are detailed in the enclosed report. In addition to the audit findings, the report provides recommendations for corrective actions.

During our engagement, we identified potential findings outside the scope of this audit that should be addressed in a subsequent audit of the appropriate programs.

1. Vehicles are routinely assigned to departments/programs during their lifecycle. Each department/program is selected for physical fixed asset verification on a 2-year rotational basis leading to certain vehicles not being observed. For example, a vehicle is assigned to the Office of the Controller during the department’s non-observation year and then transferred to another department just before the observation takes place.

2. Additional costs related to acquiring a vehicle for specific programs/departments are not included in the vehicle's capitalized costs within the Financial Management Information System. Some files contained the dealer invoice and an additional invoice made out to the Navajo Nation for specialized components. The purchase requisition and related purchase order provided to us was only for the amount of the base vehicle. The invoice for specialized components was close to 25% of the dealer's base vehicle cost.

If you have any questions about this report, please call our office at (702) 430-1779.

Greene Forensic Accounting Solutions LLP

Greene Forensic Accounting Solutions LLP

Las Vegas, NV
June 29, 2021

BACKGROUND

The Navajo Nation is a tribal government with approximately 27,000 square miles extending into Arizona, New Mexico, and Utah. A three-branch government system (executive, legislative, and judicial) governs the Navajo Nation, and a 24-member Navajo Nation Council serves as its legislative body.

The Navajo Nation Fleet Management Department (“FMD”) is established within the Division of General Services of the Executive Branch. The Department is overseen by a Department Manager III and the Navajo Nation Motor Vehicle Review Board. The Department’s legislative oversight is provided by the Health, Education, and Human Services Committee of the Navajo Nation Council.

The purpose of the Fleet Management Department is to provide motor vehicle transportation services to the Navajo Nation executive offices, departments, and programs through a financially self-sustaining operation. The vehicles assigned to the Navajo Nation departments and programs serve elected officials and employees. The Department is organized into four (4) service centers, one (1) auto body shop, and a central administration with approximately 60 employees.

OBJECTIVES, SCOPE, AND METHODOLOGY

The internal audit was to determine whether the Department’s internal controls are functioning as intended to ensure proper accountability of Navajo Nation fleet assets during October 1, 2018, through March 31, 2020. The areas of focus include:

1. Fleet Acquisitions and Replacements
2. Fleet Disposals and Resale
3. Fleet Inventory

To answer our audit objectives, we interviewed FMD and Property Management Department (“PMD”) personnel and examined available records. More specifically, we used systematic and judgmental sampling methods to test acquisitions and disposals and examined associated records of testing samples.

VEHICLE LIFECYCLE

The responsibility and authority of the FMD includes: 1) vehicle specifications for standardized procurement and acquisition, 2) vehicle replacement and disposal criteria, 3) vehicle use requests, assignments, and rentals, and 4) other maintenance and related duties. The Property Management Department, part of the Office of the Controller, is responsible for the Navajo Nation's physical inventory process.

We conducted interviews with the FMD, the PMD, and the Office of the Controller to understand the Navajo Nation's vehicle lifecycle process. We documented our understanding of the process in a flow chart with the following sub-processes: Budgeting, Purchasing, Insurance, Assignment/Rental, Inventory, and Disposition. Refer to Exhibit 1 for the detailed flowchart. We focused our audit on the Acquisition, Physical Inventory Observation, and Disposition of vehicles by the FMD, which is described in detail below.

ACQUISITIONS

Acquiring a new vehicle is based on the requesting department's needs and the current vehicle's condition. If a department's needs are approved, the requesting department goes through the acquisition process. The process is outlined in BFD-192-03 entitled "Navajo Nation Procurement Rules and Regulations." The policy for purchases over \$50,000 includes the following significant steps: Purchase Requisition ("PR"), Property and Supply Clearance, Encumbrance, Invitation to Bid, Notice to Business Regulatory Department, Bid Opening, Bid Evaluation, Bid Award (Purchase Order Issued), Receipt and Acceptance of Goods. There is a less involved process for small purchases under \$50,000, but the policy prohibits splitting-up purchases to qualify for the Small Purchases exception. Currently, it appears that individual departments and programs can purchase their vehicles for specific needs if sufficient budgeted funds exist. We understand that many purchases of vehicles by departments and programs are funded, at least in part, by grants and other 3rd party programs which may require additional accountability. It was explained to us that the Navajo Nation Motor Vehicle Review Board ("MVRB") reviews and approves acquisition transactions, regardless of amount.

We obtained the FMD vehicle acquisition listing from the Financial Management Information System for the audit period, and we randomly selected 25 vehicles for testing. We designed our tests to determine if the FMD was acting according to the process described to us and the process as identified in the Navajo Nation's policies and procedures. We requested supporting documentation for each sample to confirm that the process is operating as described to us and to verify that controls are designed and working effectively. Our observations and recommendations are described further below. During our testing, we found that the FMD conducted a significant purchase of 292 vehicles that occurred during 2019 and 2020, and a number of our samples were part of this purchase.

DISPOSALS

Disposing of a vehicle is based on the vehicle's condition and the needs of the requesting department. Based on our interviews and our review of the Property Management Department procedures covering vehicle disposals, the process is: 1) approval for disposal (generally a memo declaring the vehicle excess), 2) a permanent vehicle turn-in form, and 3) a checklist covering the vehicle's condition, the surrender of fuel cards, removal of specialized equipment, and the posting of a sale notice by the PMD. Prospective vehicles are categorized between operational and non-operational. Operational vehicles are then split between vehicles available only to employees and those available to the public. Each bidder is authorized to place only two bid forms in a sealed box, and bids are non-negotiable and non-transferable to other vehicles. Equal bids are awarded to the first bidder, and sole bids below the set minimum value can be accepted. Payment is made at the Cashier's office within 24 hours of the sale. Acceptable forms of payment include cash, cashier's check, and money orders. Failure to pay within the prescribed period allows the next bidder to claim the vehicle. There is also a provision for employees to pay with payroll deductions.

PMD is responsible for processing sale and title documents. PMD electronically notifies the motor vehicle department. Buyers are responsible for fees for registering and titling the vehicle. PMD is responsible for recording the transaction into the Financial Management Information System. Specific vehicles are traded-in, but the criteria for determining when a vehicle should be traded-in rather than sold is not clear.

Vehicles that become non-operational due to accidents or mechanical issues are removed from service and either “Red Tagged” or declared a total loss. The decision to remove a vehicle from permanent service appears to start with a determination from the body or mechanical shop. They document the damage or mechanical issues and recommend a course of action. The next step that we observed in many samples was a request in the form of a memo to remove the vehicle from service. Many of these vehicles are stored and eventually sold as scrap vehicles.

We obtained the PMD policies manual describing the process for retirement and disposals, which states that PMD is responsible for the ultimate disposal of Navajo Nation property that is either no longer needed or found to be unserviceable. Further, it states that programs and departments are responsible for identifying and processing appropriate assets for retirement or disposal through trade-in, transfer to the PMD, scrap, or sale with the Controller’s approval. We obtained the vehicle disposal listing from the Financial Management Information System for the audit period, and we randomly selected 29 vehicles for testing. The sample included vehicle disposals occurring between November 6, 2018, and April 22, 2020. Our tests were designed to determine if the FMD was following the process described to us and the process identified in the Navajo Nation policies and procedures. We requested supporting documentation for each sample to confirm that the process is operating as described to us and verified that controls are designed and working effectively. The information provided by FMD varied by individual sample. Our observations and recommendations are described further below.

PHYSICAL INVENTORY

The Property Management Department has the authority to perform a physical inventory of Navajo Nation vehicles. Vehicles are inventoried as part of the Fixed Assets verification process of each program/department. Each program/department is to be inventoried at least every two (2) years. The physical inventory process is as follows: 1) Property Management clerk obtains fixed asset listing from the Financial Management Information System for the department, 2) works with the department to physically observe and verify the vehicle, 3) reconciles observations to the listing from the Financial Management Information System, and 4) determines discrepancies. If discrepancies arise, the clerk will work with the individual department to try and resolve the discrepancy. There are ten (10) days after the physical inventory is completed to find unaccounted

items. For items which are not found or other variances, the PMD will work with the department to determine the root cause and justification. Any remediation actions will be implemented by the department directors to reconcile their inventory to the Financial Management Information System.

FMD manages the location/department of the assigned vehicle and any permanently designated authorized individual(s) throughout the vehicle's lifecycle with the Navajo Nation. Each time a vehicle is assigned or reassigned, there should be an update to the vehicle's record within the Financial Management Information System. PMD performs their physical inventories on a departmental basis for all fixed assets within the department.

Due to the COVID-19 pandemic and Stay at Home Lockdown Orders on the Navajo Nation, we were unable to perform and observe a physical inventory of sampled vehicles, determine the completeness and accuracy of the Navajo Nation's financial records, and the operating effectiveness of the inventory process controls.

SUMMARY OF FINDINGS

FINDING 1 – FMD DID NOT MAINTAIN SUPPORTING DOCUMENTATION FOR ALL OF THE VEHICLES IN OUR AUDIT SAMPLE.

Acquisitions & Disposals	Condition	<p>FMD was unable to provide support for four (4) buses with a disposal date of April 22, 2020, and two (2) other vehicles that were disposed of during 2020, a total net book value of ~\$140,000. FMD stated that the buses were traded-in, but no supporting documentation was provided. Subsequently, we received copies of Financial Management Information System reports and related notes from the PMD, but no documentation of approvals supporting the disposal as prescribed per policy nor the decision to trade-in the vehicle rather than sell it was provided. If the buses noted above were procured with Federal Funds, additional requirements for disposal of those assets may have applied.</p> <p>In addition, we were unable to obtain documentation for seven vehicles selected for testing acquisitions.</p>
	Criteria	<p>Section 1(D) of the Navajo Nation Procurement Rules and Regulations and the Navajo Nation Property Management Policies Manual are among documents discussing a department’s requirement to maintain records and adhere to the Rules and Regulations. Requirements for acquiring and disposing of assets acquired with Federal Funds are noted throughout the Navajo Nation Procurement Manual and Property Management Policies Manual.</p>
	Effect	<p>FMD does not have complete records for all vehicles under their purview. Individuals within the Navajo Nation could sell vehicles without appropriate approvals or for possibly unapproved values without potentially receiving the highest value through trade-in, public sale, or employee sale.</p>
	Cause	<p>FMD lacks consistent methodology and processes in the acquisitions and dispositions of vehicles across departments. We were informed that some vehicle records were destroyed prior to those vehicles being disposed.</p>
	Recommendation	<p>Records for acquisitions and disposals should be retained in support of the Navajo Nation’s financial statements for a minimum of the current year plus 7 prior years. Vehicle files should be maintained until the vehicle is</p>

		disposed of and removed from the appropriate fixed asset systems. See page 9 of the Navajo Nation Property Management Policies Manual for detailed guidance.
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FINDING 2 – FMD SUPPORTING DOCUMENTATION OF ACQUISITIONS AND DISPOSALS IS INCONSISTENT

Acquisitions & Disposals	Condition	<p>The Fleet Management Department maintains vehicle folders that do not contain all relevant documentation of acquisitions and disposals. We found that the folders did not consistently contain the same type of documentation in support of an acquisition or ultimate disposal. Various vehicles sampled had multiple types of documentation, an assortment of signed and unsigned memos, and various reports. We were unable to determine if various approval memos were reviewed and approved and who had been provided copies of those memos. Further, not all vehicles damaged in accidents appeared to have been reviewed by the Risk Management Department for insurance coverage or recovery from 3rd parties.</p> <p>There was an inconsistent tracking of the Rusco and WEX fuel cards. When fuel cards were not surrendered with the vehicle, there was no explanation (e.g., cards had not been issued, transferred to another vehicle, etc.)</p>
	Criteria	<p>All significant transactions of the FMD should be supported by adequate and approved documentation in accordance with the Navajo Nation Procurement Rules and Regulations as described in Sections III through XVI and the Navajo Nation Property Management Policies Manual.</p>
	Effect	<p>FMD does not properly support the vehicle acquisition and disposal process, including documenting required approvals, steps taken, and outcomes. FMD does not have complete documentation of the steps taken as part of the disposition process such as equipment removal and returning of fuel cards assigned to authorized users.</p> <p>Unauthorized purchases may be made, and fuel costs may be assigned to the incorrect cost center. Purchasers of vehicles may obtain unauthorized equipment from specialized vehicles, including law enforcement</p>

		vehicles. Equipment may include radios and lights and sirens not allowed for civilian use.
	Cause	FMD does not follow a consistent methodology requiring a specific process to be followed to acquire or dispose of a vehicle. The employees appear to know the process, but it is not followed as prescribed in the Property Management Policies Manual and Procurement Manual (for acquisitions). Documented policies do not provide department employees with clear and concise guidelines. The method of assessing vehicle condition and disposing of vehicles no longer in service is disorganized and incomplete. The files to support vehicle decisions were incomplete and inconsistent as to the nature of the documentation.
	Recommendation	<p>The FMD should implement a Fleet Acquisition and Disposal policy to specify the steps required and individuals' authority to acquire and dispose of vehicles.</p> <p>The policy should identify the documents required to support each step in the process and the files to be maintained by FMD and PMD. This FMD policy should be coordinated with PMD's policies to ensure that there is a seamless process, with each department's personnel aware of their responsibility.</p> <p>FMD and PMD should implement a joint checklist to acquire and dispose of vehicles consistent with the overall procurement policy and FMD Fleet Acquisition and Disposal policy.</p> <p>FMD should update the Permanent Assigned Vehicle Returned Form to address missing fuel cards, the disposition of those cards, and include a supplemental checklist for specialized vehicles (such as law enforcement vehicles) to ensure that the vehicles have been properly prepared for disposal.</p>

FINDING 3 – FMD DOES NOT VERIFY DAMAGED VEHICLE RECOVERY EFFORTS

Acquisitions & Disposals	Condition	We observed that the FMD Body Shop provided detailed support for vehicles that were recommended to be declared inoperative due to mechanical issues or accidents. We saw documentation on some vehicles that the Risk Management Department had reviewed the file
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		due to accident damage. In one case, Risk Management Department personnel wrote a memo stating that they were pursuing a subrogation claim against a third party for damages over \$14,000. There was no record that the monies had been recovered or credited to the appropriate department or that the claim had been denied. We did observe detailed accident reports for vehicles damaged in accidents.
	Criteria	Best Practices would include the Fleet Management Department following-up on open claims and ensuring that all claims are reviewed by the Risk Management Department for claim recovery through subrogation or insurance payment.
	Effect	Potential insurance claims may not be filed, and monetary recoveries potentially due to the FMD may not be realized.
	Cause	FMD lacks a consistent policy addressing damaged and destroyed vehicles.
	Recommendation	The FMD in conjunction with the Risk Management Department should implement a policy requiring a formal Risk Management review of vehicles involved in any accidents or exhibiting unexplained body damage (bent frames, etc.). The policy should include a checklist of outstanding open claims, required outstanding items to complete, due dates, and approvals indicating completeness of the process.

FINDING 4 – FMD DOES NOT ADHERE TO NAVAJO NATION PROCUREMENT RULES AND REGULATIONS WHEN ACQUIRING NAVAJO NATION FLEET

Acquisitions	Condition	<p>We observed purchase requisitions issued as close as two days before the Purchase Order, with both documents reflecting the pricing from the successful bidder's quote.</p> <p>Vehicle files included a summary of the bids received, but only the successful bidder's actual quotation. FMD personnel later indicated that they had additional documentation which was not provided due to the volume of the data. Although the Procurement Rules and Regulations require a formal bid evaluation, the files contained a list of those who attended the bid opening meeting but did not contain notes of the</p>
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		deliberations and the bid evaluation sheet used to determine the successful bidder.
	Criteria	Navajo Nation Procurement Rules and Regulations Section III (A) "Purchase Requisition" 1(a) states: "The Procurement process for each procurement of goods shall begin with a purchase requisition form completed by the Procuring Party." The criteria and process for evaluating bids are found in Section III (G) Bid Evaluations.
	Effect	Preparing the PR after the purchase is awarded negates the purpose and usefulness of the PR - which is to express a need, estimate the cost, and if the need can be met through a generic equivalent or must meet specific requirements. For many vehicles, a discount from the manufacturer's MSRP provides a starting estimate of the expected cost. Without including all supporting documentation in the bid review process, an anticompetitive collusion may occur in which bidders and/or FMD personnel could coordinate in undermining the bidding process.
	Cause	FMD does not adhere to Procurement Rules and Regulations.
	Recommendation	The FMD should follow established Navajo Nation procurement rules and regulations. The contract award documentation should include copies of all bids as well as notes evidencing that the purchase was awarded to the most qualified bidder.

FINDING 5 – FMD DID NOT VERIFY THAT VEHICLES BEING RECEIVED AGREED WITH THE PURCHASE ORDER

Acquisitions	Condition	The process to approve, bid, and finalize the bulk purchase of 292 vehicles, approximately \$7.2 million, took many months to complete. Although model year 2018 vehicles were ordered, many of the vehicles received were the model year 2019 and 2020. The receiving document appeared to be generated from the purchase order and showed the model year as 2018.
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		The bids from one vendor specified the vehicles as “Next Generation” or “Next Generation available 2020 model year”. The individuals checking-in the vehicles did not note the correct model year and the purchase order was not amended to reflect the actual model year of vehicles being received (2019 and 2020 in many cases). The correct year appears to be shown on the vehicle’s title and in the Financial Management Information System.
	Criteria	Navajo Nation Procurement Rules and Regulations Section III (I) “Receipt and Acceptance of Goods” subsection 6 states: “The procuring party shall immediately inspect the Goods to determine if the goods meet specifications”.
	Effect	The FMD may receive and authorize payment for merchandise that does not conform to the purchase contract. In this case the vehicles received were a more recent model year than those ordered, but it is possible that items could be received that were of less value than ordered.
	Cause	The FMD does not properly document vehicles received and address non-conforming deliveries.
	Recommendation	FMD personnel should be trained to follow Section III. (I), (page 15) of the Navajo Nation Procurement Rules and Regulations to ensure that the merchandise being received meets the specifications outlined in the purchase order. There should be a procedure established to address FMD’s receipt of non-conforming goods.

FINDING 6 – FMD LACKS A FORMAL DELEGATION OF AUTHORITY MATRIX

Acquisitions & Disposals	Condition	FMD does not have a formalized Delegation of Authority matrix for vehicle procurement, disposal of vehicles, and inventory variances based on dollar value. Currently all purchases are required to obtain approval from the Motor Vehicle Review Board (“MVRB”), regardless of dollar value. All physical observation variances are explained and require approval of the Controller for write-off or adjustment.
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	Criteria	A formalized Delegation of Authority matrix which defines financial and administrative responsibilities and delegated authorities is considered a best practice.
	Effect	The efficiency of the purchasing process and physical observation adjustments may be hindered by excessive approval requests to the MVRB and Office of the Controller. Individuals may not obtain appropriate approvals during the acquisition or disposal process.
	Cause	The FMD lacks documented vehicle acquisition and disposal policies and procedures.
	Recommendation	The Fleet Management Department should publish a Formal Delegation of Authority Matrix documenting administrative responsibilities and approval levels. This effort should be coordinated with the Office of the Controller, The Risk Management Department, the Property Management Department, and any other stakeholders.

FINDING 7 – FMD TAKES MULTIPLE YEARS TO DISPOSE OF VEHICLES

Disposals	Condition	<p>In several instances, the vehicle designated for disposal had been identified as being excess, destroyed due to an accident or other damage, or had been selected as mechanically unsound years before any action was taken to dispose of the vehicle and convert the remaining value to cash.</p> <p>Several of the vehicles sold for salvage in 2018 were identified and approved for disposal between 2006 to 2011. We understand from the audit close-out meeting that an additional 77 scrap vehicles are residing in a field next to the FMD body shop. We were informed that vehicles in that field were placed there between 1978 and 2004.</p> <p>One accident report related to the vehicles disposed in 2018 was dated in 2002. From our discussions with FMD and PMD personnel, there are likely many vehicles still in storage waiting for reassignment or disposition.</p> <p>FMD body shop personnel stated that the disposal process for emergency vehicles varies for vehicles sold to scrap</p>
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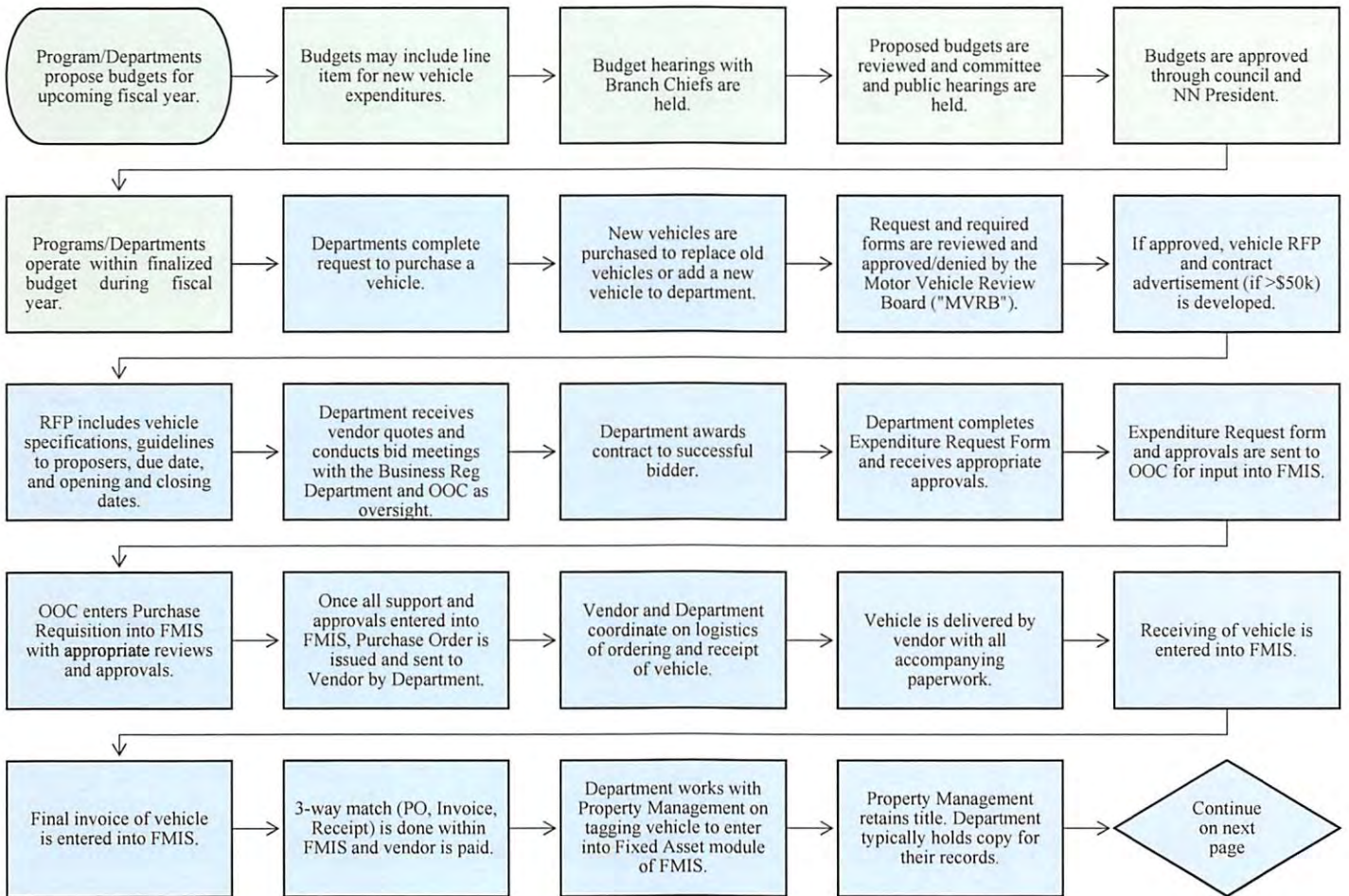
		dealers and vehicles offered to the public directly. Emergency equipment is not removed for vehicles sold to scrap dealers to increase the value of the vehicle but is removed when vehicles are sold directly to the public.
	Criteria	The Navajo Nation Property Management Policies Manual provides detailed instructions on the disposal of vehicles (page 42). In addition, vehicles acquired with Federal or Pass-Thru Funds must also comply with appropriate Federal regulations (see Exhibit 2).
	Effect	Vehicles can be stripped for parts, removed without authorization, and vehicles will deteriorate over time, reducing their remaining value. The Navajo Nation continues to incur costs for carrying non-operating vehicles on its books and records. Emergency vehicles sold with emergency equipment and decals may compromise the Navajo Nation's public safety programs by potentially allowing third parties access to emergency decals and equipment.
	Cause	The lack of a formal systematic and periodic approach to disposing of vehicles that are no longer in service. The lack of coordination between the FMD declaring vehicles either excess or inoperable, placing them in storage for disposal, and the PMD disposing of the vehicles.
	Recommendation	FMD and PMD should jointly create a formal process to identify and dispose of vehicles on a timely periodic basis.

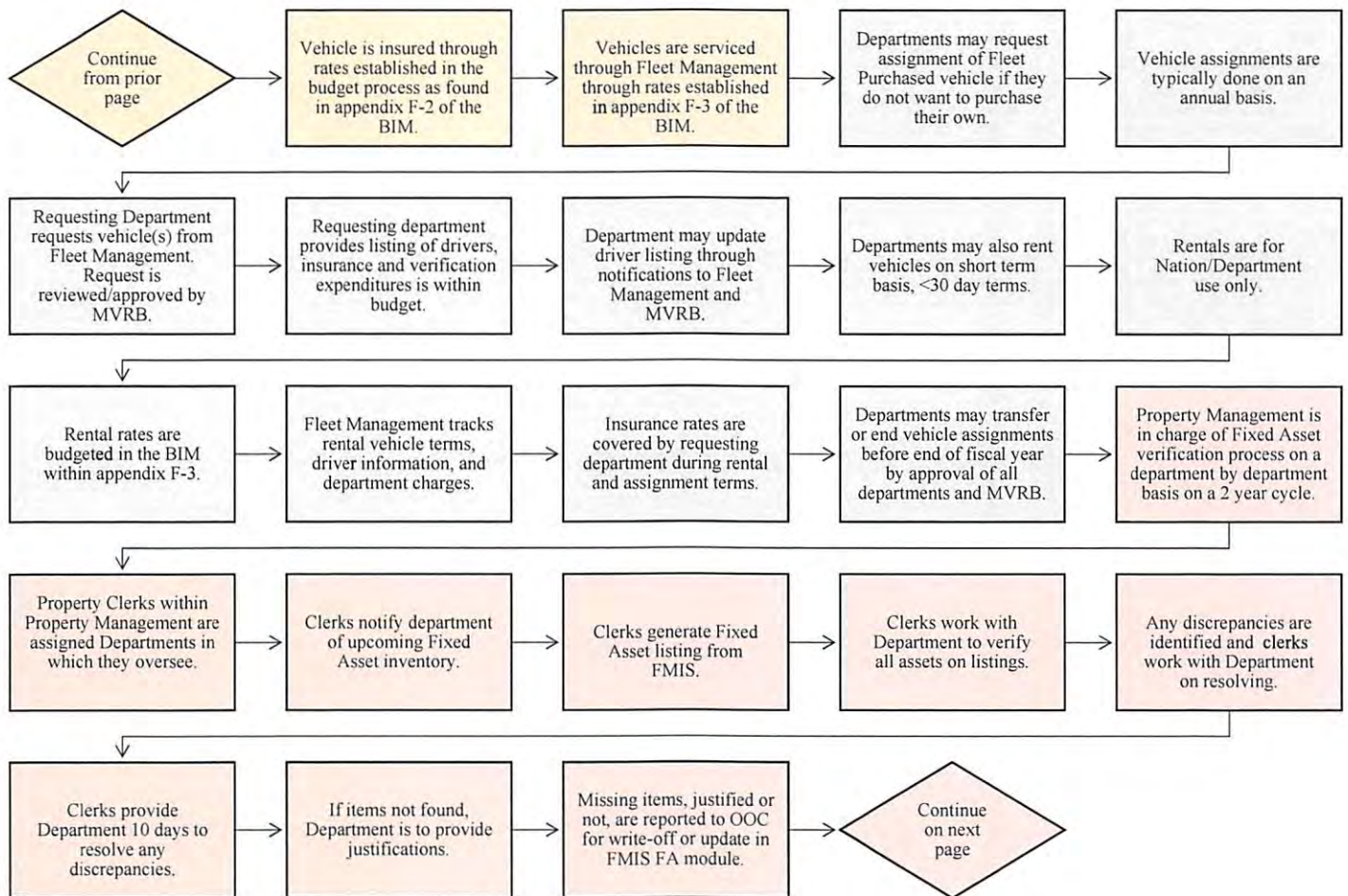
Exhibit 1

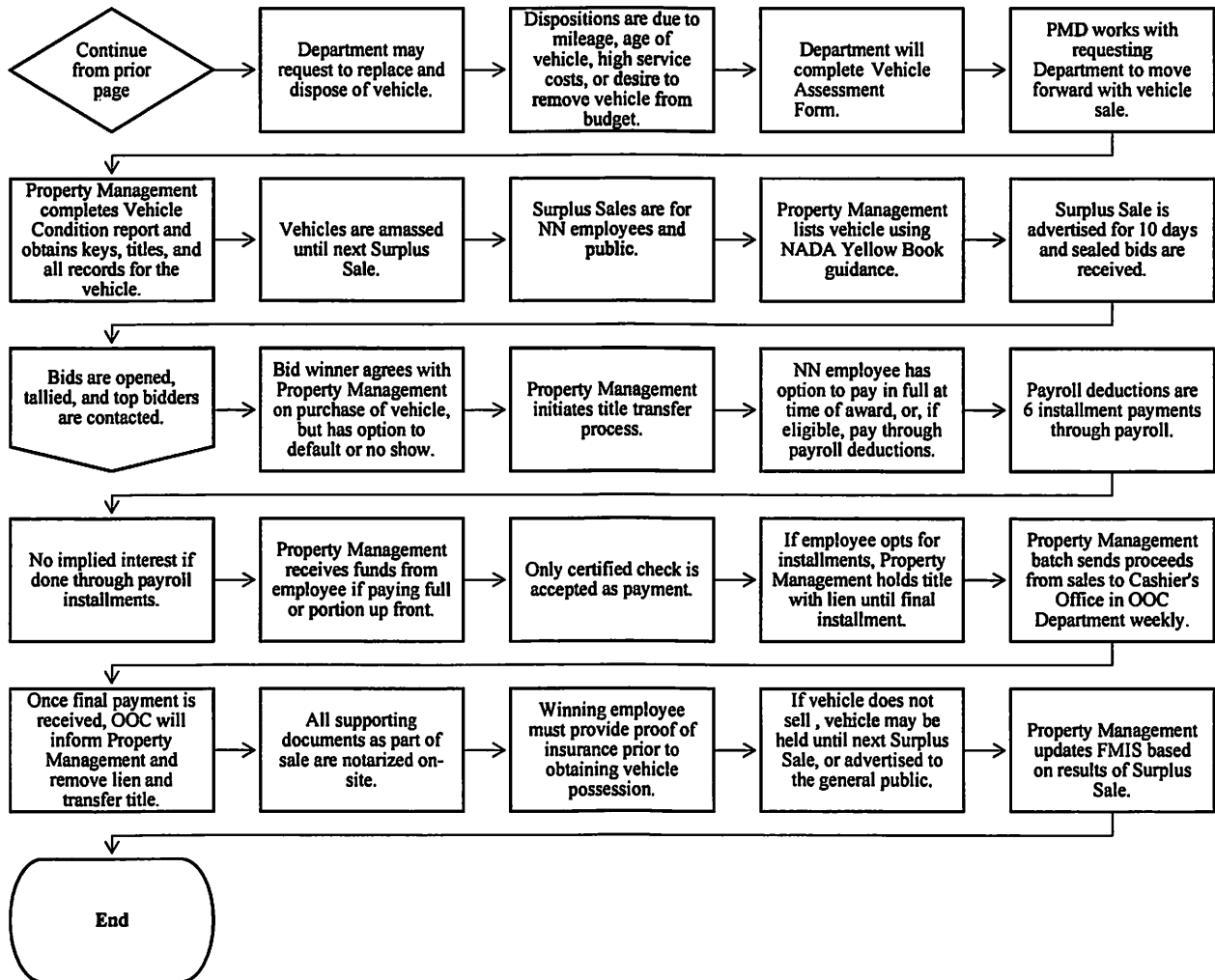
Internal Audit of the Navajo Nation Fleet Management Department

Vehicle Lifecycle Flowchart

Sub-Process Notes
Green – Budget
Blue – Purchasing
Yellow – Insurance/Service
Gray – Assignment/Rental
Orange – Inventory
Blue Gray – Disposition







Continue from prior page

Department may request to replace and dispose of vehicle.

Dispositions are due to mileage, age of vehicle, high service costs, or desire to remove vehicle from budget.

Department will complete Vehicle Assessment Form.

PMD works with requesting Department to move forward with vehicle sale.

Property Management completes Vehicle Condition report and obtains keys, titles, and all records for the vehicle.

Vehicles are amassed until next Surplus Sale.

Surplus Sales are for NN employees and public.

Property Management lists vehicle using NADA Yellow Book guidance.

Surplus Sale is advertised for 10 days and sealed bids are received.

Bids are opened, tallied, and top bidders are contacted.

Bid winner agrees with Property Management on purchase of vehicle, but has option to default or no show.

Property Management initiates title transfer process.

NN employee has option to pay in full at time of award, or, if eligible, pay through payroll deductions.

Payroll deductions are 6 installment payments through payroll.

No implied interest if done through payroll installments.

Property Management receives funds from employee if paying full or portion up front.

Only certified check is accepted as payment.

If employee opts for installments, Property Management holds title with lien until final installment.

Property Management batch sends proceeds from sales to Cashier's Office in OOC Department weekly.

Once final payment is received, OOC will inform Property Management and remove lien and transfer title.

All supporting documents as part of sale are notarized on-site.

Winning employee must provide proof of insurance prior to obtaining vehicle possession.

If vehicle does not sell, vehicle may be held until next Surplus Sale, or advertised to the general public.

Property Management updates FMIS based on results of Surplus Sale.

End

Exhibit 2



THE NAVAJO NATION – Office of the Controller

Accounting Policies Manual

Excess or obsolete property that is no longer required by one department will be transferred to the PMD if another department in need is not immediately identifiable, in accordance with Section 6.9 Relocation.

- **Sale**

The property will be sold whenever reasonable proceeds from such a process are anticipated. Sale and pricing methods will be subject to the approval of the Controller for items equal to and greater than \$1,000 and may include direct negotiation, sealed bid invitation, spot bidding, fixed-price sale, public auction, out-of-cycle sale, employee sale, or sales to the general public. Sales will be conducted by the sole discretion of the PMD Manager for items less than \$1,000. All sales will be final where there will be no exchanges or refunds allowed. Remote location sales will be allowed when it is not economically feasible to move an item to a yard to conduct a sale.

- **Trade-In**

Property that is traded in or exchanged for a similar asset will be recorded as a sale (original asset) and acquisition through purchase (new asset) by the department in the FMIS.

- **Lost or Stolen**

Property that has been lost or stolen and that have been properly recorded and deemed unrecoverable will be retired.

- **Scrap**

Property that has been transferred to the PMD and is found to be damaged, destroyed, or in any other way having no recoverable value will be accumulated and disposed of in accordance with existing scrap metal/refuse contracts or as otherwise directed by the Controller.

Disposal of Equipment Acquired with Federal or -Pass-Thru Funds

Disposal of equipment purchased with federal or federal-pass-thru funds must comply with the appropriate federal regulations. Depending upon the fair market value of the equipment (usually at the time the award terminates) and the federal awarding agency's instructions, disposition must occur following specific rules:

- If the equipment has a unit fair market value of \$5,000 or less, it may be retained, sold or otherwise disposed of with no further obligation to the federal awarding agency.
- If the equipment has a unit fair market value of more than \$5,000, the Nation must obtain disposition instructions from the federal awarding agency. The Nation may be permitted to retain the equipment for use under other non-federally sponsored projects, but it may also be instructed to sell or transfer the equipment back to the agency or another entity.
 - If the Nation is instructed to sell the equipment, the Nation must remit to the federal awarding agency's pro-rated share of the proceed from the sale of the equipment.

There may be additional requirements that vary by the awarding agency. Please refer to grant and contract agreements for any additional requirements.

Disposal of Property with Hazardous Materials

Items such as refrigerators, freezers, sterilizers, underground tanks, and similar equipment may contain Freon, mercury switches, batteries, or other potentially hazardous components. Before disposing of surplus equipment, the PMD must certify that reasonable means have been taken to clean and decontaminate the

Client Response

THE NAVAJO NATION



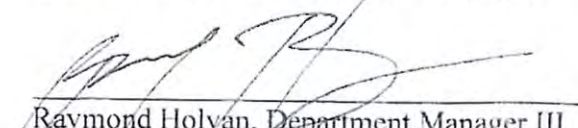
JONATHAN NEZ | PRESIDENT

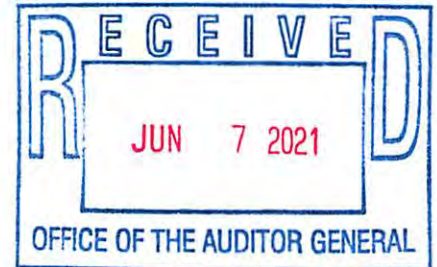
MYRON LIZER | VICE PRESIDENT

June 7, 2021

MEMORANDUM

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

FROM: 
Raymond Holyan, Department Manager III
Fleet Management



RE : **Internal Audit of Navajo Nation Fleet Management Department**

In response to the Final Draft of the Internal Audit of the Fleet Management Department, the Fleet Management Department set forth the formal comments to the report prepared by Office of the Auditor General/Greene Forensic Accounting Solutions LLP dated May 18, 2021. On March 25, 2021, we were able to meet virtually with your auditing team, Office of the Auditor General & Greene Forensic Accounting Solutions and discussed the findings and recommendations. The exit meeting included changes to the initial report, which was completed by the Office of the Auditor General/Greene Forensic Accounting Solutions auditing team on May 21, 2021.

With the respect of the areas of concern, the FMD has prepared the following comments, although the audit identifies other departments within the organization, we will focus primarily on our oversight, but will work with the mentioned departments to streamline a more conducive process/procedures to comply with the recommendations set-forth by the audit:

FINDING 1 – FMD DID NOT MAINTAIN SUPPORTING DOCUMENTATION FOR ALL OF THE VEHICLES IN OUR AUDIT SAMPLE

RESPONSE: We acknowledge this finding as such and will comply with the Records Retention recommendations schedules and comply with the Navajo Nation's Property Management Policy Manual. Furthermore, FMD will put a standard operating procedure in writing.

FINDING 2 – FMD SUPPORTING DOCUMENTATION OF ACQUISITIONS AND DISPOSALS IS INCONSISTENT

RESPONSE: The finding is acknowledged and FMD will develop a specific policy to govern the acquisition and disposal of all vehicles, which will be a step-by-step procedure, forms, relative documents, fuel card terminations, specialty equipment removal/disposal, checklist to regulate the entire process, ultimately, standardize the entire process. Collaborate with other departments, Property Management, Procurement, and MVRB.

FINDING 3 – FMD DOES NOT VERIFY DAMAGED VEHICLE RECOVERY EFFORTS

RESPONSE: FMD is aware of the consistencies in verifying and tracking vehicle damage and or recovery claims. therefore, FMD will follow the required recommendation to develop a policy/procedure and standardize the entire process. FMD will collaborate with the Risk Management Department to develop this policy/procedure.

FINDING 4 – FMD DOES NOT ADHERE TO NAVAJO NATION PROCUREMENT RULES AND REGULATIONS WHEN ACQUIRING NAVAJO NATION FLEET

RESPONSE: We acknowledge this finding and will address this inconsistency of not adhering to the Procurement Rules and Regulation. The Division General Service has developed rules, guidelines, checklist to control & sustain total compliance of the Procurement Rules and Regulations.

FINDING 5 – FMD DID NOT VERIFY THAT VEHICLES BEING RECEIVED AGREED WITH THE PURCHASE ORDER

RESPONSE: This finding is acknowledged and we will put in place a protocol to address these types of issues, it was unfortunate that a large purchase was initiated and thus the vehicle models ran into subsequent years. All vehicle acquisitions will follow the findings in number four (4) and limited the volume of acquisition so the vendor will have adequate time to fulfill order.

FINDING 6 – FMD LACKS A FORMAL DELEGATION OF AUTHORITY MATRIX

RESPONSE: The finding is acknowledged and will be addressed in coordination with finding number two (2)'s response to develop policies & procedures.

FINDING 7 – FMD TAKES MULTIPLE YEARS TO DISPOSE OF VEHICLES

RESPONSE: We acknowledge the finding and will address the finding by adhering to the recommendation provide by auditors. FMD will collaborate with the Property Management Department to expedite the disposal process or find alternative solutions.

Conclusion

The FMD acknowledges all the findings in this department audit and will adhere to all the recommendations provided. We understand the importance of adhering to all Rules & Regulations and Policies as it pertains to all functionalities of the department and oversight. The corrective actions on our responses might take a little longer than normal process, due to the pandemic it is harder to collaborate with other departments and oftentimes it may need legislative approvals.

We appreciate The Office of The Auditor General/Green Forensic Accounting Solutions, LLP in conducting this internal audit and we will make every attempt to immediately address these corrective recommendations and establish/standardize internal/external controls in the process.

cc: Tom Platero, Division Director - Division of General Services
Paulson Chaco, Chief of Staff - Office of the President/Vice President
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