

OFFICE OF THE AUDITOR GENERAL

The Navajo Nation

Special Review of the Red Lake Chapter #18

**Report No. 21-16
June 2021**

**Performed by:
Marcale Kaskalla, Associate Auditor
Alfreda Lee, Senior Auditor**



June 30, 2021

Arval T. McCabe, President
RED LAKE #18 CHAPTER
P.O. Box 130
Navajo, NM 87328

Dear Mr. McCabe:

The Office of the Auditor General herewith transmits Audit Report No. 21-16, A Special Review of the Red Lake Chapter #18. 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 September 30, 2020, our review has revealed the Chapter needs to strengthen controls with activities addressed by its five-management system. The following issues were identified:

- FINDING I: Chapter did not obtain Workers Compensation Insurance for a volunteer serving as an equipment operator.
- FINDING II: Chapter fixed assets are not reported on the Balance Sheet.
- FINDING III: Chapter lacks segregation of duties over the bank reconciliation process.
- FINDING IV: Chapter lacks adequate controls over heavy equipment rental.

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

xc: Roger James, Vice-President
Loberta Redhouse, Secretary/Treasurer
Kathleen Shurley, Community Services Coordinator
Wilson C. Stewart, Jr., Chapter Delegate
RED LAKE #18 CHAPTER
Sonlatsa Jim-Martin, Department Manager II
Patricia Begay, Senior Program & Project Specialist
ADMINISTRATIVE SERVICE CENTER/DCD
Chrono

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REVIEW RESULTS

FINDING I: Chapter did not obtain Workers Compensation Insurance for a volunteer serving as an equipment operator.

Criteria: Navajo Nation Personnel Management Policies and Procedures, Section V.A.6, requires supervisors to obtain Workers Compensation coverage for volunteers. In addition, the Workers Compensation Act, Section 1002.12.c., states general volunteer workers for the chapters may be deemed to be covered persons and entitled to the benefits provided by this Act, provided: (1) such volunteer is injured or killed in the course of employment, (2) liability for premium payment has been incurred, and (3) the employer has submitted required documentation to the Workers Compensation Program.

Condition: During the review period, we identified four instances in which the Chapter used a volunteer as a backhoe operator. In all four instances, the Chapter did not report the backhoe operator to the Workers Compensation Program for insurance purposes. Without proper notification, the volunteer performed services without insurance coverage.

Effect: Since the Chapter did not comply with Workers Compensation requirements, the Chapter could be held liable if the volunteer is injured while operating heavy equipment.

Cause:

- The Community Services Coordinator does not understand the Workers Compensation requirements for volunteers.
- In addition, the Community Services Coordinator stated that the Chapter does not have sufficient funds to provide insurance coverage for the volunteer. However, there was no indication the staff obtained a cost estimate of insurance coverage for the volunteer.

Recommendations:

1. The Community Services Coordinator should not allow the volunteer or any other employee to operate the heavy equipment unless they are covered by Workers Compensation Insurance.
2. The Community Services Coordinator should report volunteers along with all employees in accordance to Workers Compensation requirements on a quarterly basis.
3. The Community Services Coordinator should contact the Workers Compensation Program to obtain a cost estimate for insurance coverage for the volunteer.
4. The Community Services Coordinator should seek training from the Workers Compensation Program on the requirements for reporting volunteers and maintaining applicable insurance coverage.

FINDING II: Chapter fixed assets are not reported on the Balance Sheet.

Criteria: FMS Fiscal Policies and Procedures, Section VII.F.2.g., states the Capital Assets account group shall be reported on the Combined Balance Sheet financial statement. FMS Property Policy and Procedures, Section VIII.B.2., states the Accounts Maintenance Specialist shall ensure that all pertinent records and documentation of all Chapter property are kept on file including invoices.

Condition: The property inventory identified a total of seven fixed assets totaling \$247,393. However, there was no documentation to support the reported values for three fixed assets (two buildings and a backhoe); the Chapter estimated the values of these items with no real basis. Overall, the Chapter does not report the total fixed asset amount on the Balance Sheet.

Effect: Without supporting documentation, the Chapter cannot provide assurance the fixed asset values are accurate and reliable. Without proper financial reporting, the Chapter is understating its assets value and results in misleading financial reports. Such reports would hinder informed decision-making on financial matters.

Cause: Although the Chapter has identified funds in its FY2021 budget for appraisal services, the Community Services Coordinator has not taken steps to hire a licensed appraiser to properly value the Chapter’s fixed assets.

- Recommendations:**
- 1. The Community Services Coordinator should adhere to the procurement rules and regulations to hire a licensed appraiser to determine the value of each Chapter fixed asset, especially buildings and heavy equipment.
 - 2. Once fixed asset values are determined, the Chapter staff should seek technical assistance from the Administrative Service Center to post the values in the accounting system and prepare a Balance Sheet to report fixed assets.
 - 3. The Accounts Maintenance Specialist should maintain records such as invoices, receipts, appraisal reports, etc. to support the fixed asset values.

FINDING III: Chapter lacks segregation of duties over the bank reconciliation process.

Criteria: FMS Fiscal Policy and Procedures, Section VII.C.1 and 2, states someone other than the primary signatories shall be designated to prepare the bank reconciliation. The Accounts Maintenance Specialist shall sign and date the bank reconciliation. Once completed, the reconciliation, check register, validated bank deposit receipt slips and bank statements shall be forwarded to the Community Services Coordinator for review.

Condition: The Chapter has been without an Accounts Maintenance Specialist since June 2019. As such, the Community Services Coordinator prepared the bank reconciliation each month. We reviewed six months of bank reconciliation

to verify whether the Chapter applied compensating controls (in the absence of staff) to ensure segregation of duties were in place as required by the policies and procedures. The following exceptions were noted:

Type of Exceptions	No. of Exceptions
Community Services Coordinator, as the preparer of the bank reconciliation, did not sign the documents.	6 of 6 (100%)
No review of bank reconciliation by an independent individual.	6 of 6 (100%)

Effect: The lack of independent review poses a risk that errors or intentional misappropriation of cash will not be detected.

Cause: The Community Services Coordinator did not designate one of the Chapter Officials or seek assistance from the Administrative Service Center to perform the independent review.

Recommendations:

1. The Community Services Coordinator should designate a Chapter Official or seek assistance from Administrative Service Center for independent review of the bank reconciliation.
2. The Community Services Coordinator should prepare and sign the bank reconciliation, then forward the bank reconciliation, check register, validated bank deposit receipt slips and bank statements to the designated Chapter Official for independent review.
3. The designated Chapter Official should review the bank reconciliation and supporting documents, investigate any discrepancies, then sign the bank reconciliation.

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

Criteria: FMS Property Management Policies and Procedures, Section IV.A, states the Chapter staff and Chapter officials shall be charged with the responsibility to ensure the safekeeping of all Chapter property. In the event of loss, the Chapter staff and officials shall be prepared to show that precautionary actions were taken to guard against loss, damage and theft. Section XI.A., states that Chapter property or equipment shall not be loaned or rented without the approval of the Community Services Coordinator on a Chapter Equipment Rental Form.

Condition: The Chapter does not maintain adequate controls over heavy equipment rental activities. Consequently, the following issues were noted:

1. The Chapter has not developed and adopted heavy equipment rental policies and procedures.
2. The Chapter equipment rental forms are completed by the renters but the forms are not reviewed and approved by the Community Services Coordinator.

3. The Chapter heavy equipment inspection form is being completed by the operator but the forms are not reviewed and approved by the Community Services Coordinator.
4. There is a standard fee for backhoe rental but the Chapter does not charge for backhoe usage during burial services. However, the Community Services Coordinator acknowledged that the heavy equipment operator who operates the equipment on a volunteer basis receives monetary donations from renters as payment for his services. These donations are not accounted for by the Chapter.

Effect: In the absence of controls, the Chapter cannot provide reasonable assurance its heavy equipment is properly safeguarded and the use of such equipment is fully accounted for to avoid any misuse of assets.

Cause:

- The Community Services Coordinator does not properly understand the required procedures for approving applicable forms to ensure rental activities are authorized.
- The Chapter Officials are not monitoring the Community Services Coordinator to make sure the Chapter is complying with policies and procedures.

Recommendations:

1. The Community Services Coordinator should develop heavy equipment rental policies and procedures and obtain community approval via a Chapter resolution.
2. For each equipment rental, the Community Services Coordinator should review and approve the equipment rental form and the heavy equipment inspection form.
3. The Community Services Coordinator should not allow the heavy equipment operator to collect fees directly from renters for his volunteer services.
4. The Chapter Officials should closely monitor the Community Services Coordinator and her work activities to make sure Chapter assets are managed and safeguarded in accordance to policies and procedures.

CONCLUSION

During the audit period, control discrepancies were identified within key Chapter processes. The Chapter did not obtain proper Workers Compensation Insurance for a volunteer. Fixed assets totaling \$247,393 are not reported on the Balance Sheet. The Chapter did not exercise segregation of duties within the bank reconciliation process. Lastly, the Chapter lacks adequate controls over heavy equipment rental.

BACKGROUND

The Navajo Nation Office of the Auditor General has conducted a Special Review of the Red Lake #18 Chapter for the 12-month period ending September 30, 2020.

The Red Lake #18 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 2015 and the Accounts Maintenance Specialist position has been vacant since June 2019.

The Red Lake #18 Chapter operates under a five-management system with policies and procedures addressing five key system components: fiscal management, personnel management, property management, records management, and procurement. The authorities, duties and responsibilities of the Red Lake #18 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. Red Lake #18 Chapter's fiscal year 2020 operating budget was approximately \$1,156,953.

OBJECTIVE, SCOPE, AND METHODOLOGY

The Office of the Auditor General conducted a Special Review of the Red Lake #18 Chapter pursuant to the authority vested in the Office of the Auditor General by 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 complied with Navajo Nation Workers Compensation Act.
2. Chapter supported and accurately reported its fixed assets on the Balance Sheet.
3. Chapter performed bank reconciliation in accordance with Fiscal policies and procedures.
4. Chapter maintained adequate controls for heavy equipment rental.

The audit covers activities for the 12-month period of October 1, 2019 to September 30, 2020.

In meeting the audit objectives, we interviewed the Chapter staff and officials, observed Chapter operations, and examined available records. More specifically, we tested samples of expenditures 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 Red Lake #18 Chapter staff and officials for their cooperation and assistance throughout the audit.

CLIENT RESPONSE

Arval T. McCabe
PRESIDENT

Roger L. James
VICE-PRESIDENT

Loberta Redhouse
SECRETARY/TREASURER

Wilson Stewart, Jr.
COUNCIL DELEGATE



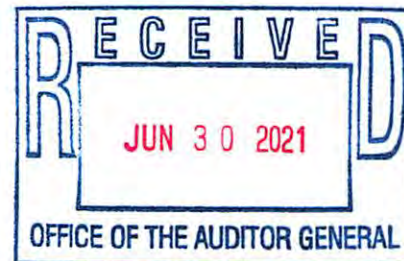
Kathleen Shurley
CHAPTER COORDINATOR

Florina Howard
GRAZING COMMITTEE
MEMBER

RED LAKE CHAPTER

June 30, 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 Red Lake Chapter #18, dated June 16, 2021. Red Lake 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 Red Lake Chapter at (505) 777-2810 or by email at redlake18@navajochapters.org.

Sincerely,


Loberta Redhouse, Chapter Secretary/Treasurer
RED LAKE CHAPTER #18

xc: Arval T. McCabe, Chapter President
Roger James, Chapter Vice-President
Wilson Stewart, Sr., Council Delegate
Patricia Begay, Fort Defiance SPPS