



OFFICE OF THE AUDITOR GENERAL

The Navajo Nation

**A Second Follow-Up Review
of the
Mariano Lake Chapter
Corrective Action Plan Implementation**

**Report No. 22-04
March 2022**

Performed by:
Kimberly Jake, Auditor
Karen Briscoe, Principal Auditor



March 14, 2022

Jay R. DeGroat, President
MARIANO LAKE CHAPTER
P.O. Box 164
Smith Lake, NM 87365

Dear Mr. DeGroat:

The Office of the Auditor General herewith transmits Audit Report No. 22-04, a 2nd Follow-up Review of the Mariano Lake Chapter Corrective Action Plan Implementation.

BACKGROUND

In 2012, the Office of the Auditor General performed a Financial Audit of Mariano Lake Chapter and issued audit report no. 12-20. A corrective action plan (CAP) was developed by the Mariano Lake Chapter in response to the review. The audit report and CAP were approved by the Budget and Finance Committee on March 19, 2013 per resolution no. BFMA-10-13.

In 2016, a follow-up review was completed and determined the Chapter did not fully implement the CAP to resolve the audit findings. On September 21, 2016, the Budget and Finance Committee approved sanctions, per resolution no. BFS-27-16, on the Mariano Lake Chapter for failure to fully implement its CAP.

OBJECTIVE AND SCOPE

The objective of this 2nd follow-up review is to determine whether the Mariano Lake Chapter fully implemented its corrective action plan based on a six-month review period of April 1, 2021 to September 30, 2021.

SUMMARY

Of the 55 corrective measures, the Mariano Lake Chapter implemented 44 (80%) corrective measures, leaving 11 (20%) not fully implemented. See attached Exhibit A for the detailed explanation of our review results.


CONCLUSION

Overall, the Mariano Lake Chapter has demonstrated progress by implementing a majority of its corrective action plan and as a result, has reasonably resolved most of the audit findings from the 2012 audit. Therefore, the Chapter has mitigated risks previously identified as a result of the audit findings. In consideration of these improvements, the Office of the Auditor General concludes to lift the sanctions imposed on the Mariano Lake Chapter and its Officials. Accordingly, a memorandum will be provided to the Office of the Controller to release all withheld funds in accordance with 12 N.N.C. Section 9.

Ltr. to Jay DeGroat
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We advise the Mariano Lake Chapter to continue working with the Administrative Service Center to address the remaining audit findings that are still in the process of being resolved. We thank the Mariano Lake Chapter staff and officials for assisting in this 2nd follow-up review.

Sincerely,



Helen Brown, CFE, Principal Auditor
Delegated Auditor General

xc: Henry T. Begay, Vice-President
Henry P. Begay, Jr., Secretary/Treasurer
Leandra K. James, Community Services Coordinator
Edmund Yazzie, Council Delegate
MARIANO LAKE CHAPTER
Sonlatsa Jim-Martin, Department Manager II
Guarena Adeky, Senior Programs & Projects Specialist
ADMINISTRATIVE SERVICE CENTER/DCD
Chrono

REVIEW RESULTS
Mariano Lake Chapter Corrective Action Plan Implementation
Review Period: April 1, 2021 to September 31, 2021

Audit Issues	Total # of Corrective Measures	# of Corrective Measures Implemented	# of Corrective Measures Not Implemented	Audit Issue Resolved?	Review Details
1. Inaccurate carryover budget amount was presented to the Chapter membership for adoption.	1	1	0	Yes	Attachment A
2. Detailed budget was not developed to support the budget resolution.	3	3	0	Yes	
3. Poor budget monitoring resulted in deficit balances.	2	2	0	Yes	
4. Budget and expenditure transactions were not properly posted to the appropriate chart of accounts in the accounting system.	1	1	0	Yes	
5. Cash deposit was not properly posted to the bank account in the accounting system.	2	2	0	Yes	
6. There is no segregation of duties in the bank reconciliation activities.	3	3	0	Yes	
7. Not all cash receipts were recorded in the cash receipt tickets and/or the accounting system.	2	2	0	Yes	
8. Inadequate control over travel expenditures.	2	2	0	Yes	

REVIEW RESULTS
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Review Period: April 1, 2021 to September 31, 2021

9. Lack of controls over rental activities.	3	3	0	Yes	Attachment A
10. Chapter property is not adequately insured.	3	3	0	Yes	
11. The Chapter cannot justify wages paid to temporary employees.	2	2	0	Yes	
12. Incomplete personnel files.	1	1	0	Yes	
13. Non-compliance with Public Employment Program policies and procedures.	4	4	0	Yes	
14. Non-compliance with scholarship policies and procedures.	4	4	0	Yes	
15. Emergency Fund was expended contrary to its intended purpose.	3	3	0	Yes	
16. State Unemployment Tax reports and payments were not remitted.	2	2	0	Yes	
17. Monitoring by Chapter Officials was insufficient.	3	2	1	Yes	
18. Contrary to Local Governance Act, the Chapter has not formally adopted and fully implemented a five management system policies and procedures.	2	2	0	Yes	

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19. Poor accounting over distribution of wood.	3	0	3	No	Attachment B
20. Lack of accountability over Chapter property and equipment.	4	1	3	No	
21. Non-compliance with Navajo Nation Procurement Code and Regulations.	3	1	2	No	
22. Capital outlay appropriations were not used as intended.	2	0	2	No	
TOTAL:	55	44	11	18 - Yes 4 - No	

WE DEEM CORRECTIVE MEASURES: **Implemented** where the Chapter 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.

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◆ 2021 STATUS	Issue 1: Inaccurate carryover budget amount was presented to the Chapter membership for adoption. Resolved
For FY 2021, accurate budget amounts for all funds were presented to the Chapter membership for approval by a chapter resolution.	
◆ 2021 STATUS	Issue 2: Detailed budget was not developed to support the budget resolution. Resolved
For FY 2021, the Chapter developed detailed budgets for their carryover and annual allocations using required Navajo Nation budget forms. The Chapter membership approved all budgets via resolution before expending funds. However, the Chapter's internally generated funds totaling \$614 and external funds totaling \$9,225 did not have budgets on file. The Chapter acknowledged the standard budget forms were not used but provided meeting minutes to show the membership approval of the expenditure plans for these funds. As such, the meeting minutes were accepted. However, the Chapter is advised to prepare detailed budgets for all funds using required forms in accordance with its Fiscal Policies and Procedures and Navajo Nation budget instructions manual.	
◆ 2021 STATUS	Issue 3: Poor budget monitoring resulted in deficit balances. Resolved
For the six-month review period, the Chapter monitored budgets and had no deficit fund balances.	
◆ 2021 STATUS	Issue 4: Budget and expenditure transactions were not properly posted to the appropriate chart of accounts in the accounting system. Resolved
The Chapter staff accurately posted budgets, revenues and expenditures in the accounting system in accordance with the chart of accounts.	
◆ 2021 STATUS	Issue 5: Cash deposit was not properly posted to the bank account in the accounting system. Resolved
For the six-month review period, the Chapter properly posted \$51,857 bank account deposits in the accounting system. Postings were made by the Accounts Maintenance Specialist and verified by the Community Services Coordinator.	
◆ 2021 STATUS	Issue 6: There is no segregation of duties in the bank reconciliation activities. Resolved
The bank reconciliation process was evaluated and there is sufficient segregation of duties in place between the Accounts Maintenance Specialist, Community Services Coordinator, and Secretary/Treasurer.	
◆ 2021 STATUS	Issue 7: Not all cash receipts were recorded in the cash receipt tickets and/or the accounting system. Resolved

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<p>For the six-month review period, the Chapter's cash receipts totaled \$51,857. All cash receipts were recorded on receipt tickets, except for Navajo Nation annual allocations. Nonetheless, all receipts were posted to the accounting system. The Chapter was advised to record all cash and checks received to receipt tickets to support all postings to the accounting system. Overall, the Chapter strengthened controls within its cash receipt process.</p>	
◆ 2021 STATUS	<p>Issue 8: Inadequate control over travel expenditures. Resolved</p>
<p>For the six-month review period, the Chapter's travel expenditures totaled \$1,163. A sample of 25 travel expenditures totaling \$884 were examined and all expenditures were authorized prior to travel and supported with required documents prior to approving reimbursements.</p> <p>For mileage reimbursements, the Chapter erroneously reimbursed travelers using the 2019 approved mileage rate instead of the 2021 approved rate. However, the discrepancies were immaterial. Nonetheless, the Chapter was advised to obtain the updated mileage rate each year from the Office of the Controller to ensure travelers are reimbursed for correct mileage based on the authorized rate. Despite these errors, the Chapter improved controls within its travel process.</p>	
◆ 2021 STATUS	<p>Issue 9: Lack of controls over rental activities. Resolved</p>
<p>For the six-month review period, the Chapter did not have any rental activities. The Chapter does not have plans to resume rental activities at this time or in the near future due to the Covid-19 pandemic. In the event the Chapter resumes rental activities, we evaluated the current rental policies and procedures to determine if they include adequate controls such as review, authorization, support documentation and reporting. Overall, the current rental policies and procedures are sufficient. Although the Chapter had no rental activities during this review, the Chapter has reasonably mitigated risks previously identified with this audit finding by improving controls.</p>	
◆ 2021 STATUS	<p>Issue 10: Chapter property is not adequately insured. Resolved</p>
<p>The Chapter submitted the FY2021 Underwriting Exposure Summary report to the Risk Management Program in September 2020. Thereafter, the Chapter paid their insurance premium in January 2021 when annual allocations were received. Despite the late payment, the Chapter made sure its property was insured.</p>	
◆ 2021 STATUS	<p>Issue 11: The Chapter cannot justify wages paid to temporary employees. Resolved</p>
<p>For the six-month review period, payroll expenditures totaled \$27,522. A sample of 10 expenditures totaling \$2,621 were examined and all the wages paid were supported with documentation including attendance sheets and timesheets. The payroll vouchers and supporting documentation were reviewed by the Community Services Coordinator and Chapter Officials for accuracy to justify wages paid.</p>	
◆ 2021 STATUS	<p>Issue 12: Incomplete personnel files. Resolved</p>

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For the six-month review period, the Chapter hired 55 temporary employees. A sample of personnel files for five employees were reviewed to verify the personnel files had the required documents to support the hiring of employees. All files had required documentation with the exception of the new hire forms.

New Mexico state law requires all new hires, regardless of age, to be reported to the State new hire directory. According to the Chapter, the staff electronically reported the information and printed a hardcopy which was mailed to the State. Since the Chapter did not retain a copy for their own files, the Chapter's claim could not be substantiated. Nonetheless, the Chapter was advised to retain copies of these reports and make sure they are filed in the personnel files for proper recordkeeping. Overall, the Chapter has made improvements to ensure required personnel documents are on file.

◆ 2021 STATUS	Issue 13: Non-compliance with Public Employment Program policies and procedures. Resolved
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For the six-month review period, we examined all three PEP projects for compliance with applicable policies and procedures. All projects were supported with required documents and they were administered in accordance with policies and procedures.

◆ 2021 STATUS	Issue 14: Non-compliance with scholarship policies and procedures. Resolved
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For the six-month review period, \$8,960 of scholarship funds were awarded to 22 recipients. The Chapter provided its current scholarship policies and procedures used to award scholarship assistance but there was no supporting chapter resolution to show these policies and procedures were formally adopted by the chapter membership. However, the current policies and procedures were deemed reasonable in ensuring scholarship awards are fair and justified.

Accordingly, ten recipient files totaling \$4,305 were examined for compliance with the Chapter's scholarship policies and procedures. Overall, the Chapter complied with the policies and procedures in the awarding student scholarships. The Chapter was advised to obtain formal approval of the policies and procedures with a chapter resolution as soon as possible.

◆ 2021 STATUS	Issue 15: Emergency Fund was expended contrary to its intended purpose. Resolved
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For the six-month review period, emergency fund expenditures totaled \$1,648. The eight expenditures were examined to verify whether the Chapter complied with emergency fund guidelines and overall, we found the expenditures were adequately supported with documentation and they were incurred for events intended to address and/or mitigate emergencies within the Chapter community.

◆ 2021 STATUS	Issue 16: State Unemployment Tax reports and payments were not remitted. Resolved
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For the six-month review period, we examined two State Unemployment Tax quarterly reports remitted to the New Mexico Department of Workforce Solutions and one report incorrectly reported exempt wages for 26 temporary youth employees. This error resulted in an overpayment of unemployment contributions totaling \$386. Since the Chapter is not fully aware of the reporting regulations, the error

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Overall, the Chapter officials have made improvements in monitoring Chapter operations since the initial audit but there are still some areas where stronger monitoring is still needed which the Chapter continues to address at this time. Some of these areas include distribution of goods, property management, procurement of goods/services, and compliance with capital outlay funding guidelines. The Chapter officials attended training and are using monitoring tools to document their monitoring activities but the officials should continue to improve their monitoring responsibilities.

<p>◆ 2021 STATUS</p>	<p>Issue 18: Contrary to Local Governance Act, the Chapter has not formally adopted and fully implemented a five management system policies and procedures. Resolved</p>
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The Chapter adopted its five management system (FMS) policies and procedures manual in 2017 and has been implementing these policies and procedures as verified through this review. Although the Chapter has made improvements with the implementation of the FMS policies and procedures, there are still areas that are considered work in progress as explained in the report.

As for the in-house policies which consist of the scholarship, public employment program, rental, and summer youth, the Chapter did not have supporting resolutions adopting these policies. The Community Services Coordinator explained that the in-house policies were approved with the FMS manual in 2017 but the approving resolution does not specifically reference the in-house policies. Despite the lack of formal approval, the Chapter has consistently demonstrated compliance with the in-house policies as noted in this review. Therefore, to avoid further misunderstanding, the Chapter was advised to obtain formal approval of the in-house policies with a chapter resolution.

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◆ 2021 STATUS	Issue 19: Poor accounting over distribution of wood. Not Resolved
<p>For the six-month review period, the Chapter did not have any wood distribution activity. However, the Chapter purchased propane in the amount of \$5,000 from Nations Gas Technologies to be distributed to community members free of charge. Since the propane distribution was deemed a similar activity, the propane distribution was reviewed to verify if controls were in place to adequately account for the distribution.</p> <p>The one-day distribution event occurred in June 2021. The Chapter and the vendor each maintained a list of recipients and the size of the propane tank filled for each recipient. The Chapter's list reported 96 recipients while the vendor's list identified 85 recipients. There was no indication the two lists were reconciled to the purchase amount. In addition, available records could not confirm the Chapter received all propane purchased from the vendor. A separate confirmation with the propane vendor revealed the Chapter was still owed propane and after the distribution event, the vendor delivered the remaining propane to five homes identified by the Chapter. Although the vendor claims receipts were issued upon the deliveries, the Chapter did not have these receipts on file. Consequently, the full distribution of the propane assistance could not be verified. Overall, the Chapter still needs to improve controls with its assistance distribution processes. Had the vendor not detected their own mistake, the Chapter would have paid for propane services it did not actually receive resulting in a financial loss. For the next distribution event, the Chapter should seek assistance from the Administrative Service Center for better accountability.</p>	
◆ 2021 STATUS	Issue 20: Lack of accountability over Chapter property and equipment. Not Resolved
<p>Chapter property management with regards to maintaining inventory records, tagging property, and reporting fixed assets to the balance sheet were evaluated and the following were noted:</p> <p><u>Property inventory:</u></p> <ul style="list-style-type: none"> • Property identification numbers for 14 items and serial numbers for seven items were not documented on the inventory. • Three fixed assets reported in the balance sheet totaling \$104,120 were not included on the property inventory. • 10 property items selected were all affixed with identification numbers. <p><u>Fixed asset reporting:</u></p> <ul style="list-style-type: none"> • There is inconsistent reporting of fixed assets. First, the property inventory has 23 fixed assets with a total value of \$932,993 but the balance sheet reported 17 fixed assets with a value of \$760,642. Our reconciliation of records identified a total 27 fixed assets totaling \$711,390. There has been no reconciliation of these records by the Chapter. • 11 fixed assets items from the property inventory totaling \$41,808 were not reported in the balance sheet. • The balance sheet is erroneously reporting an old Chapter House valued at \$91,060 which was demolished in 2020. 	

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- A chapter resolution was approved to exclude fixed assets valued at \$5,000 or less from the balance sheet but Navajo Nation law, per the Local Governance Act, requires fixed assets valued at \$1,000 or more to be reported in the financial statements. Navajo Nation law would supersede the Chapter's resolution. Despite the chapter resolution, two assets with values under \$5,000 were reported in the balance sheet.
- Supporting documentation for 10 fixed assets were reviewed and the values reported on the balance sheet for four assets could not be verified by the documentation leading to questions about the accuracy of the balance sheet.

Overall, the risk that all property owned and controlled by the Chapter cannot be identified and accounted for still remains. The Chapter should work closely with the Administrative Service Center to identify, record, reconcile, and accurately report all fixed assets. Property controls still need to be strengthened to ensure the reliability of the financial statements with regards to Chapter assets.

◆	Issue 21: Non-compliance with Navajo Nation Procurement Code and Regulations.
2021 STATUS	Not Resolved

For the six-month review period, procurement expenditures totaled \$12,241. Nine expenditures totaling \$7,299 were examined to verify compliance with the Navajo Nation Procurement Rules and Regulations. Of the nine, five expenditures lacked the required quotations and three expenditures were not supported with receiving reports.

The Chapter provided written justifications for selecting vendors without seeking competitive quotes. The Chapter explained no other vendor can provide the products or is the only vendor that will accept their purchase order. However, the Chapter purchased supplies to make signs, water, and heavy-duty trash bags which can be found at most stores. Therefore, the sole source purchases by the Chapter are not justified. Without competitive procurement, there is a risk the Chapter continues to pay higher prices for goods/services, is accepting incomplete orders, or paying for goods/services of unacceptable quality.

◆	Issue 22: Capital outlay appropriations were not used as intended.
2021 STATUS	Not Resolved

For the six-month review period, capital outlay expenditures totaled \$3,368. The Chapter incurred the expenditures for waste disposal services, repair and maintenance on a building, and a 500-gallon water tank. However, all the expenditures did not comply with allowable expenditures per the funding guidelines.

The Chapter continues to expend restricted capital outlay funds contrary to the intent of the capital outlay funding guidelines. Should the Chapter continue in this manner, the Chapter will have fewer funds for capital outlay projects in the future. The Chapter should remain cognizant of the capital outlay funding guidelines and the expenditure restrictions to ensure the funds are used as intended.