



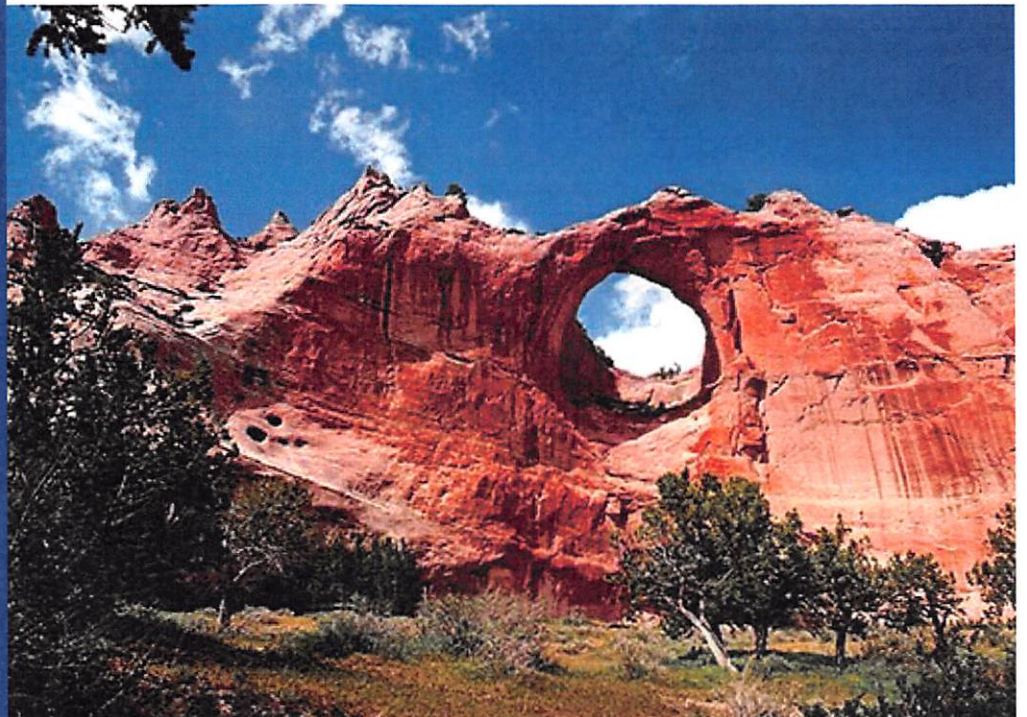
OFFICE OF THE AUDITOR GENERAL

The Navajo Nation

Internal Audit of the Klagetoh Chapter

Report No. 22-05
March 2022

Performed by:
Marcale Kaskalla, Auditor
Karen Briscoe, Principal Auditor



March 30, 2022

Leland Nez, President
KLAGETOH CHAPTER
Unit 42, HC 58 Box 90
Ganado, AZ 86505

Dear Mr. Nez:

The Office of the Auditor General herewith transmits Audit Report No. 22-05, an Internal Audit of the Klagetoh Chapter. The audit objective was to determine whether the Chapter maintains adequate internal controls to safeguard assets, ensure reliability of its financial reporting, and comply with applicable laws, regulations, policies and procedures. During the 12-month audit period ending September 30, 2021, our review has revealed the Chapter needs to strengthen controls with activities addressed by its five-management system. The following issues were identified:

- FINDING I: The Chapter utilizes a store charge account without important controls.
- FINDING II: The Chapter paid \$16,513 to several vendors for professional services without properly executed contracts.
- FINDING III: Fixed assets are not reported in the Balance Sheet and property inventory values could not be verified as accurate.
- FINDING IV: The Chapter did not clearly define the scope of housing projects and verify their completion.
- FINDING V: The Chapter did not comply with the Public Employment Projects policies and procedures.
- FINDING VI: The Chapter is not evaluating housing assistance applications in accordance with established policies and procedures.
- FINDING VII: Chapter property inventory is incomplete.

Detailed explanations of the audit issues can be found in the body of the report. The audit report 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: Leon Jackson, Vice President
Maureen Woodman, Secretary/Treasurer
Edward Clark, Jr., Community Services Coordinator
Raymond Smith Jr., Chapter Delegate
KLAGETOH CHAPTER
Sonlastsa Jim-Martin, Department Manager
Patricia Begay, Senior Programs & Projects Specialist
ADMINISTRATIVE SERVICES CENTER/DCD
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REVIEW RESULTS

Finding I: The Chapter utilizes a store charge account without important controls.

Criteria: FMS Fiscal Policies and Procedures, Section VII., states it is the policy of the Chapter to establish internal controls to ensure its assets and resources are protected against waste, fraud, and inefficiency.

Condition: The Chapter maintains an open charge account with the local gas station to purchase gasoline for the Chapter vehicle and other items such as water. However, there is no written agreement that defines the terms and conditions of the account, no chapter resolution that authorizes the charge account, and no policies and procedures to manage the account activities. Although the Community Services Coordinator requested for a copy of the agreement from the store, a copy was not provided for the audit as of this report. Since the Chapter already had the account in place when the current staff was hired, the date of when the account was initially established is unclear.

For the audit period, there were ten disbursements totaling \$1,530 for the charge account. All ten disbursements were examined and supporting receipts reconciled to the store invoices. The Chapter primarily purchased gasoline and in two instances, purchased water. The Community Services Coordinator is the primary account user but in one instance, the prior Chapter President was allowed to charge the account for a gas purchase for the Chapter vehicle.

Effect: Although there was supporting documentation on file to support the store account payments, the lack of policies and procedures, proper authorization and an account agreement puts the Chapter at risk for a) unauthorized account users, b) unauthorized purchases, c) unauthorized vehicles being filled with gasoline, and d) excessive spending.

Cause: The current staff and officials elected to continue utilizing the charge account in the same manner without consideration of establishing controls for the account such as policies and procedures.

Recommendations:

1. The Community Services Coordinator should obtain a copy of the agreement between the Chapter and local store and keep it on file. Otherwise, the Chapter should create an agreement with the local store that has been reviewed by the Department of Justice and approved with a Chapter resolution.
2. The Community Services Coordinator should establish and adopt policies and procedures to include a) authorized account users, b) authorized purchases, c) authorized Chapter vehicles, and d) spending limits.

Finding II: The Chapter paid \$16,513 to several vendors for professional services without properly executed contracts.

Criteria: In April 2020, in response to the COVID-19 pandemic, the Navajo Nation Council passed resolution no. CAP-19-20 to temporarily suspend § 102 (B) of the Local Governance Act to authorize non-governance certified Chapter Presidents to sign contracts for goods or services at or below \$50,000 using the Department of Justice (DOJ) contract template. Resolution CAP-19-20 was extended in July 2020 and again in January 2022.

Condition: For the 12-month audit period, the Chapter hired 13 vendors for professional services totaling \$32,773. Of this number, contract documentation for six (46%) vendors totaling \$16,513 were examined. Four vendors did not have executed contracts for services rendered. The remaining two vendors had agreements in place but the Chapter did not use the DOJ contract templates for these services. These agreements were also signed by the Community Services Coordinator instead of the Chapter President.

Effect: Without proper contracts, contract compliance could not be verified. Further, the Chapter puts itself and the Navajo Nation at risk for potential liability due to any contractual disputes or lack of contract deliverables.

Cause: The Community Services Coordinator and Accounts Maintenance Specialist did not consult with the Administrative Service Center or Navajo Nation Department of Justice to make sure the Chapter complies with Navajo Nation rules and regulations when procuring professional services.

Recommendations:

1. The Chapter staff should use the authorized contract template on the Department of Justice website for all professional services.
2. Until CAP-19-20 is rescinded or amended, the Chapter President should sign all professional service contracts.
3. The Chapter should seek training and guidance from the Administrative Service Center or Department of Justice when entering into professional service agreements.

Finding III: Fixed assets are not reported in the Balance Sheet and property inventory values could not be verified as accurate.

Criteria: FMS Property Policies and Procedures, Section VIII.B.2., requires the Accounts Maintenance Specialist to ensure all pertinent records and documentation of all Chapter property are kept on file including invoices. FMS Fiscal Policies and Procedures Section VII.F.2.D., requires the Chapter to report the value of fixed assets in the financial statements. If there is no documentation to support the value of fixed assets, the Community Services Coordinator will estimate the value of the asset based on fair market value. Title 26, Local Governance Act, Section 1,

states capitalized property is nonexpendable property having an acquisition value of \$1,000 or more.

Condition: Although the property inventory had 33 fixed assets totaling \$1,444,473, the Chapter did not report these fixed assets in the balance sheet as of September 30, 2021. 20 (61%) fixed assets totaling \$517,597 were verified for supporting documentation (i.e. receipts, invoices, or appraisals) and to substantiate the values reported in the property inventory. Of this number, there was no documentation for seven fixed assets and as a result, their values as reported in the property inventory could not be verified as accurate.

Effect: Without the reporting of fixed assets in the balance sheet, the Chapter financial statements are unreliable because the total value of chapter assets would be understated. Such reports would hinder the Chapter from making informed financial decisions. In addition, an inaccurate property inventory submitted for insurance purposes will result in a possible over/under payment of insurance premiums.

Cause:

- The Community Services Coordinator does not review the financial statements generated from the accounting system. As a result, he was not aware that fixed assets were not being reported on the balance sheet although fiscal policies require the reporting of all chapter assets.
- Although the current administrative staff have been employed with the Chapter since 2017 and 2019 respectively, they have not requested for any training from the Administrative Service Center on financial reporting.
- The Chapter staff could not locate records for fixed assets purchased prior to their hiring and no other alternatives were identified on how to value the fixed assets.

Recommendations:

1. The Community Services Coordinator should seek assistance from the Administrative Service Center to obtain a certified appraiser to appraise the fixed assets or value fixed assets based on fair market value.
2. The Community Services Coordinator should update the inventory records with reliable property values and assign the Secretary/Treasurer to verify its accuracy against support documentation.
3. The Accounts Maintenance Specialist should create files for all fixed asset records.
4. The Chapter staff should seek training from the Administrative Service Center on documenting and posting the fixed asset values to the accounting system and generating reliable financial reports.

Finding IV: The Chapter did not clearly define the scope of housing projects and verify their completion.

Criteria: Chapter Housing Assistance Policies and Procedures, Section IV.D., states that prior to commencing any work, the Community Services Coordinator shall prepare a statement of work. Section IV.E., states upon completion of the work, the Community Services Coordinator shall prepare a performance report briefly describing the accomplishments as they relate to the statement of work.

Condition: For the 12-month audit period, 30 recipients were awarded housing assistance totaling \$25,314. Of this number, 15 recipient files were examined for statement of work and completion reports. 12 (80%) recipients totaling \$10,108 did not have a statement of work and completion reports on file. The Chapter purchased building materials to assist these recipients but the Chapter did not verify the materials were used to complete the approved housing assistance projects. Although the Chapter collected receipts of purchases made by the recipients, these receipts did not show whether projects were completed as intended.

Effect: There is a risk that Chapter resources totaling \$10,108 awarded as housing assistance were spent for unauthorized purposes or for purposes unrelated to housing. Consequently, there is no assurance the Chapter is adequately addressing the housing needs of its community members.

Cause: By all indications, the Chapter staff is not familiar with the Chapter's housing policies and procedures since they were unaware that the Chapter was supposed to monitor and document the completion of the housing assistance projects.

Recommendations:

1. The Community Services Coordinator should create a statement of work for each approved housing assistance project.
2. The Community Services Coordinator should schedule site visits to the recipient homes to verify building materials are used in accordance with the statement of work. All site visits should be documented in the performance reports and filed in the recipient's file until the project is completed.
3. The Chapter Officials should review the reports to confirm the Chapter staff is adhering to the housing assistance policies and procedures and sign the reports as concurrence.

Finding V: The Chapter did not comply with the Public Employment Projects policies and procedures.

Criteria: Chapter Public Employment Project (PEP) Policies and Procedures, Section V.A and B., requires the Chapter to complete a project application for each project to document the description of the project, tasks to be completed, resources needed, duration of the project and monitoring over the project. Section VII.C., states that at the completion of each project, the Chapter administration shall prepare a final project report describing

the completed project and have the report signed by the Chapter President.

Condition: For the 12-month audit period, 13 PEP projects related to home renovations and a bathroom addition were identified. Of this number, seven (54%) projects were reviewed for project applications and completion reports. All seven projects did not have these required documents on file. The Community Services Coordinator confirmed only one project application was prepared for all 13 projects. However, the application was vague and unclear as there were no details about what tasks would be completed, what resources would be needed, how long the projects would take to complete and who would be monitoring the projects. According to the Community Services Coordinator, he relies on the project supervisor for verbal updates on the status of projects. However, no evidence was provided to substantiate these claims.

Effect: Overall, the Chapter spent \$64,802 in PEP funds. In the absence of adequate planning, documentation and monitoring, there is no assurance the Chapter is utilizing PEP resources as intended. There is a risk the Chapter will have to expend additional resources to address incomplete or inadequate work that was not previously detected.

Cause:

- The Community Services Coordinator disagrees a project application is needed for each project. However, individual project applications allow the Chapter to properly plan each project, document clear expectations, identify resources needed, and provides a basis for monitoring the progress of completion.
- There is no indication the Chapter officials assist with monitoring the PEP projects.

Recommendations:

1. The Community Services Coordinator should prepare a project application for each PEP project in accordance with PEP policies and procedures.
2. The Community Services Coordinator should monitor projects and prepare progress reports for the PEP projects.
3. The Chapter President should review and approve the progress reports to verify completion of PEP projects.

Finding VI: The Chapter is not evaluating housing assistance applications in accordance with established policies and procedures.

Criteria: Chapter Housing Assistance Policies and Procedures, Section VI.B., states a selection committee shall develop and utilize a ranking system which ensures priority for eligibility, serving those with greatest need first. The five basic factors in the ranking system shall include: (1) annual household income, (2) family size, (3) overcrowded living situations, (4) unsanitary/unsafe living conditions and (5) elderly, handicapped or disabled.

Condition: For the 12-month audit period, 30 recipients were awarded housing assistance totaling \$25,314. Of this number, 15 (50%) recipients with assistance totaling \$11,327 were examined to verify if the Chapter complied with policies in evaluating housing assistance applications. Contrary to policies, all 15 recipients were not evaluated by a selection committee using a ranking system. Instead, the Community Services Coordinator solely evaluated the housing applications for these recipients by conducting on-site visits to their respective homes. However, none of these site visits were documented. Therefore, the Chapter cannot justify the housing assistance awarded to these recipients.

Effect: There is no assurance that the Chapter awarded housing assistance to eligible applicants based on policies and procedures, and that housing funds are being used to address the most critical needs within the Chapter community.

Cause:

- The Chapter did not have a housing selection committee when the Community Services Coordinator was hired in 2019, therefore, the Community Services Coordinator made on-site visits to evaluate and approve requests. However, the housing policies and procedures were not revised to reflect the Chapter's actual process.
- The Chapter does not have a standard form to document the evaluation of homes as part of the housing application process.

Recommendations:

1. The Community Services Coordinator should approve housing assistance in accordance with the housing assistance policies and procedures or revise the policies to be consistent with the actual process.
2. The Chapter staff should create a form to document the evaluation of housing applicants.
3. The Chapter officials should review the payment vouchers for housing assistance during check signing to ensure the Chapter staff adhered to the housing policies and procedures.

Finding VII: Chapter property inventory is incomplete.

Criteria: FMS Property Policies and Procedures, Section VII.A.1 to 3., requires the Chapter to protect Chapter assets by implementing the following: 1) perform an annual physical inventory of property, 2) maintain a complete and accurate inventory of all property, and 3) tag all property with an identification number. Section IX requires the Chapter to document incidents of lost or stolen property items.

Condition: Property inventory is missing pertinent information. The Chapter did not consistently include information such as property tag numbers, values and serial numbers. In addition, the Chapter has a truck and two heavy equipment that were not included on the inventory.

Furthermore, the property inventory reports eight property items as missing, but there is no information on how these items went missing. The Chapter has not taken any initiatives to seek replacements through insurance or to remove the items from their inventory.

Effect: In the event of property loss, the Chapter may not be able to identify the item for insurance purposes. For example, the property items identified as missing on the inventory are missing property numbers, serial numbers or both and this could make it difficult to replace through insurance.

Cause:

- The annual physical inventory was performed by temporary employees; however, the Community Services Coordinator did not review the inventory to ensure all property items are accounted for and all pertinent information is included.
- Property items were missing prior to the hiring of the current Chapter staff. Rather than seeking assistance from the Administrative Service Center to address the missing property, the staff continued to report these missing items on the property inventory.

Recommendations:

1. The Community Services Coordinator should review the Chapter's property inventory on a quarterly basis to ensure it remains complete and accurate.
2. The Community Services Coordinator should seek assistance from Administrative Service Department to address the missing property.

CONCLUSION

During the audit period, control discrepancies were identified within key Chapter processes. The Chapter utilizes a store charge account without important controls. The Chapter paid \$16,513 to several vendors for professional services without properly executed contracts. Fixed assets are not reported in the Balance Sheet and property inventory values could not be verified as accurate. The Chapter did not clearly define the scope of housing projects and verify their completion. The Chapter did not comply with the Public Employment Projects policies and procedures. The Chapter is not evaluating housing assistance applications in accordance with established policies and procedures. Lastly, Chapter property inventory is incomplete.

BACKGROUND

The Navajo Nation Office of the Auditor General has conducted an Internal Audit of the Klagetoh Chapter for the 12-month period of October 1, 2020 to September 30, 2021.

The Klagetoh 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 2019. The Accounts Maintenance Specialist initially worked with the Chapter beginning February 2017 but resigned in September 2019 and returned March 2021.

The Klagetoh 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 Klagetoh 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. Klagetoh Chapter's fiscal year 2021 operating budget was approximately \$823,809.

Objective, Scope, and Methodology

The Office of the Auditor General conducted an Internal Audit of the Klagetoh 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 objective for this audit:

Determine if controls are functioning as designed to ensure:

1. Important controls are in place for the charge account with the local gas station.
2. Professional services are properly procured in accordance of procurement rules and regulations.
3. Fixed assets are supported with adequate documentation and accurate values are reported in the financial statements.
4. The Chapter verified the completion of housing projects according to the statements of work.
5. The Chapter complies with the Public Employment Projects policies and procedures.
6. The Chapter evaluated housing assistance applications in accordance with policies and procedures.
7. Property inventory is complete with pertinent information.

The audit covers activities for the 12-month period of October 1, 2020 to September 30, 2021.

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 Klagetoh Chapter staff and officials for their cooperation and assistance throughout the audit.

CLIENT RESPONSE

KLAGETOH CHAPTER



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PRESIDENT: LELAND NEZ VICE PRESIDENT: LEON JACKSON SECRETARY/TREASURER: MAUREEN WOODMAN GRAZING OFFICER: ALLAN TAPAHA
COUNCIL DELEGATE: RAYMOND SMITH, JR. COMMUNITY SERVICE COORDINATOR: EDWARD CLARK, JR. ACCOUNTS MAINTENANCE SPECIALIST: LELA SANGSTER

March 25, 2022



Helen Brown, CFGE, Principal Auditor
Delegated Auditor General
Navajo Nation Office of Auditor General
P. O. Box 708
Window Rock, AZ 86515

Dear Ms. Brown,

We are in receipt of your final draft of the Internal Audit of the Klagetoh Chapter, dated March 16, 2022. The Klagetoh Chapter has reviewed and agreed to the audit findings and will begin the Corrective Action Plan process based on the recommendations made by your office.

If you should have any questions, please call the Klagetoh Chapter at (928) 652-2700 or email klagetoh@navajochapters.org. Thank you

Sincerely,

A handwritten signature in black ink, appearing to read "Leland Nez".

Leland Nez, Chapter President

CC: Raymond Smith Jr., Council Delegate
Sonlatsa Jim-Martin, Department Manager II
Patricia Begay, Senior Programs & Projects Specialist
Leon Jackson, Vice-President
Maureen Woodman, Secretary/Treasurer
Edward Clark, Jr., Community Services Coordinator
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