

OFFICE OF THE AUDITOR GENERAL

The Navajo Nation

Internal Audit of the Greasewood Springs Chapter

**Report No. 22-08
May 2022**

**Performed by:
HEINFELD, MEECH & CO., P.C.**



May 17, 2022

Calvin F. Lee, President
GREASEWOOD SPRINGS CHAPTER
P.O. Box 1260
Ganado, AZ 86505

Dear Mr. Lee:

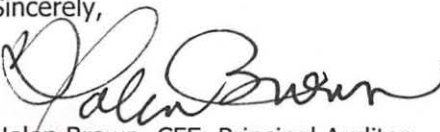
The Office of the Auditor General, in conjunction with Heinfeld, Meech & Co., P.C. herewith transmits Audit Report No. 22-08, Internal Audit of Greasewood Springs Chapter. The audit objective was to determine whether the Chapter maintains adequate internal controls to safeguard assets, ensure reliability 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's financial operations have not been audited since the fiscal year ended September 30, 2016.
- Finding II: Chapter capital assets were not accounted for in the accounting system or fully reported on the Balance Sheet.
- Finding III: Cash disbursements were not properly supported by documentation or were not approved prior to receipt or payment.
- Finding IV: Written quotations were not obtained by the Chapter on applicable purchases.
- Finding V: Payroll activities were not properly calculated or documented.
- Finding VI: Personnel records were not properly maintained or documented.
- Finding VII: Supporting documentation for revenues allocated from the Navajo Nation was not on file.
- Finding VIII: The most recent bank reconciliation reported checks outstanding more than 90 days.

Detailed explanation of all 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 call our office at (928) 871-6303.

Sincerely,



Helen Brown, CFE, Principal Auditor
Delegated Auditor General

xc: Julia Benally, Vice President
Linda S. Yazzie, Secretary/Treasurer
Dereck Curley, Chapter Manager
Elmer P. Begay, Council Delegate
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Chrono

Office of the Auditor General - The Navajo Nation
Greasewood Springs Chapter

The internal audit of Greasewood Springs Chapter for the 12-month period ended September 30, 2021 was conducted 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 the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

To meet our audit objectives, Chapter administration and officials were interviewed, data was analyzed and documents were examined. Additionally we:

- Considered the Chapter's internal controls as outlined in the Chapter Five-Management System policies and procedures manual.
- Tested compliance with certain provisions of laws, regulations, and policies as outlined in the internal audit.

As a result of the internal audit, we noted certain matters that are opportunities for strengthening internal controls and instances of noncompliance with laws, regulations, contracts, and grant agreements and policies. Management should address these items to ensure it fulfills its responsibility to establish and maintain adequate internal controls and comply with laws, regulations, and policies. Those items and our related recommendations are described in the accompanying summary. The items discussed in the accompanying summary are a result of audit procedures performed based on a risk based assessment, and therefore, not all deficiencies or weaknesses in controls may have been identified.

This information is intended for the Navajo Nation Auditor General's Office and is not intended to be and should not be used by anyone other than the specified party. However, this information is a matter of public record, and its distribution is not limited.

Sincerely,

Heinfeld Meech & Co. PC

Heinfeld, Meech & Co., P.C.
Flagstaff, Arizona
April 28, 2022

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Findings and Recommendations

Finding I: The Chapter’s financial operations have not been audited since the fiscal year ended September 30, 2016.

Criteria

Pursuant to 26 N.N.C. § 101 (A), as noted in the Fiscal Policies and Procedures Manual, Section VII M (1) the Greasewood Springs Chapter shall obtain an audit of its financial operations at least every two years and which shall include funds received from all Navajo Nation, State, County, Federal sources and other fund sources.

Condition

The most recent audit of the Chapter was for the fiscal year ended September 30, 2016, which was issued June 29, 2020. Further, a disclaimer of opinion was issued, due to the inability by the Chapter to provide sufficient evidential matter in support of certain transactions and accounts balances, particularly with respect to the cash balances, revenue/receivables, capital assets and depreciation, and current year activities.

Effect

Chapter financial operations for fiscal years 2017 through 2021 have not yet been audited. The Chapter is in violation of established policies and procedures. Untimely financial audits and the receipt of a disclaimer of opinion negatively impacts the reliability and credibility of the Chapter’s financial operations.

Cause

The delay in completion of the fiscal year 2016 audit was due in part to difficulties encountered in locating the information required for the audit and the lack of capital asset information. The fiscal year 2017 audit and other subsequent audits could not be started until the fiscal year 2016 audit was issued and approved. Additionally, scheduling delays occurred in part as a result of the COVID-19 pandemic.

Recommendations

1. The Chapter Manager and Administrative Assistant should take proactive steps to ensure all supporting documentation is available for review for the audits of fiscal years 2017 through 2021. Steps could include reviewing files to ensure appropriate supporting documentation is available to support each recorded transaction. Additionally, the record filing and storage system at the Chapter should be evaluated for ease of retrieval of selected documentation.
2. The Chapter Manager should work with the contracted independent certified public accountant to conduct the required audits and should ensure audit work is scheduled and completed as soon as possible.

Finding II: Chapter capital assets were not accounted for in the accounting system or fully reported on the Balance Sheet.

Criteria

Pursuant to 26 N.N.C. § 101 (A), as noted in Property Management Policies and Procedures Section IV F, the Greasewood Springs Chapter property records will include serial numbers, quantity, condition and insurance for proper identification of items and to ensure proper reporting of any losses. Additionally per Section IV J, all property and equipment with a value of more than \$5,000 shall be capitalized and recorded in the Greasewood Springs Chapter’s capital asset ledger. The records shall include a description of the asset, identification numbers, cost of the asset, date acquired, location, and custodial responsibility. Expected lifetime and depreciation records shall be maintained. Additionally, per Section VII F (2) (g), the capital assets account group shall be reported on the Combined Balance Sheet financial statement.

Condition

The Chapter has a property inventory sheet that includes eleven capital asset items with a combined value of \$1,767,853. The trial balance, which supports the amounts reported on the Balance Sheet, as of September 30, 2021 includes \$114,536 in equipment. The capital asset items listed on the property inventory sheet are included in the insurance listings, however the Chapter did not maintain a capital asset listing that included all of the required elements either as a separate listing or in the MIP system. The property inventory sheet listing is missing the custodial responsibility, lifetime (useful life) and depreciation information. Further, depreciation expense was not calculated or recorded.

Effect

Capital asset and associated depreciation balances are not reported in the Chapter’s accounting records or financial statements. The Chapter is in violation of established policies and procedures. Without proper financial reporting, the Chapter is understating the value of assets and understating annual depreciation expense and accumulated depreciation. Additionally, the lack of capital asset information has resulted in audit delays, the issuance of a disclaimer of opinion on the audit for the year ended September 30, 2016, and incomplete or misleading financial reports.

Cause

The Chapter does not currently have the MIP software capital asset module and the Chapter Manager was waiting to obtain the module until after the receipt of a comprehensive appraisal of all buildings so that all assets could be added to the MIP system at one time. The appraisal was obtained subsequent to the audit period.

Recommendations

1. The Chapter Manager and Administrative Assistant should obtain the capital asset module required to properly record and track the Chapter's capital assets.
2. Once the software module is acquired, Chapter personnel should enter all of the required data on each of the Chapter's capital assets into the MIP system.
3. The Chapter Manager and Administrative Assistant should ensure depreciation expense is calculated on all capital assets with a value of more than \$5,000, and that the amounts, along with the corresponding asset balances are recorded on the financial statements, including the Balance Sheet. As part of the monthly financial review process, the Chapter Manager should review depreciation expense and accumulated depreciation balances for updates and propriety based on related asset additions and disposals.
4. The Chapter Manager should review the property inventory to verify all of the required information is documented.

Finding III: Cash disbursements were not properly supported by documentation or were not approved prior to receipt or payment.

Criteria

Pursuant to 26 N.N.C. § 101 (A), as noted in the Fiscal Policies Section VII B 2(b), the Administrative Assistant shall ensure that the Fund Approval Form (FAF) indicates payment authorization and that all source documents (i.e. invoices, quotes, claim forms, timesheets and similar documents) support each fund disbursement before preparing a check for payment. Additionally, per Section VII B 2(c) the Administrative Assistant shall upon receipt of goods review all invoices to ensure completeness of the transaction and that those particular goods or services have been received. Further, per Section VII B 2(d), the Greasewood Springs Chapter Manager shall review each fund disbursement for necessity, reasonableness, and budgetary authorization. The Greasewood Springs Chapter Manager and Secretary-Treasurer shall review the completed check with all supporting documentation before co-signing the check.

Condition

A sample of 37 disbursements totaling \$117,576 was reviewed and the following was noted:

1. For two of 37 disbursements reviewed totaling \$17,001, the disbursement was not supported by a vendor invoice.
2. One of 37 disbursements reviewed for \$803 was not supported by documentation, including a signed FAF, invoice or other required documents.
3. For four of 37 disbursements reviewed totaling \$20,042, there was no documentation supporting if or when the goods or services were received.
4. For eight of 37 disbursements reviewed totaling \$15,937, the disbursement was not approved until after the payment was made. The approval delays were 1-2 days on average.
5. For one of 37 disbursements reviewed for \$2,614, the amount of the invoice did not agree to the disbursement amount by \$6. The disbursement was higher than invoice total.
6. For six of 37 disbursements reviewed totaling \$16,172, the disbursement was made before the goods or services were received. The payment dates ranged from one to 14 days before the disbursement.

Effect

Chapter policies were not adhered to. Disbursements in the amount of \$17,804 were unsupported and \$15,937 in disbursements were not properly authorized. Disbursements that are not properly authorized or supported by documentation could result in improper disbursements to vendors and misstated expenditure related financial activity. Additionally, disbursements made without documentation supporting receipt of goods or services could result in improper disbursements for goods or services not received by the Chapter and noncompliance with generally accepted accounting principles (GAAP).

Cause

Chapter employees were not aware of all requirements of the disbursement process or of the importance of following the process, but rather would prioritize the timeliness of payments over adherence to policies. Additionally, the Chapter Secretary/Treasurer was not an established check signer for the full fiscal year and therefore, checks were in some instances prepared in advance to ensure availability of two signers. Further, the Chapter does not have a consistent method of indicating the receipt of goods and services; Chapter employees to mark vendor receiving slips with the date received, while others are stamped by the receiving employee. Documentation for purchases is not retained in one single place by the Chapter, creating difficulties for personnel when documents need to be retrieved.

Recommendations

1. The Chapter Manager should obtain disbursement and records management training from the Administrative Service Center (ASC). Then, training should be provided to Chapter employees by the Chapter Manager to ensure awareness of the proper disbursement and records management processes.
2. The Administrative Assistant and Chapter Manager should ensure documentation is obtained, maintained and filed appropriately, including invoices which should be reviewed along with the FAF prior to payment authorization. No disbursement should be made without all required supporting documentation and approval by authorized signers.
3. The Administrative Assistant, Chapter Manager, and Chapter Officials should review invoices more closely to ensure items and amounts agree to the authorized FAF and are properly approved.
4. The Chapter should update and adopt a more detailed documented process over receipt of goods. The process should include specific information regarding the type of documents that constitute a receiving report and how verification of items and quantities received should be noted on shipping documents, such as packing slips.
5. The prepayment of goods and services should be utilized only in situations where advance payment is required in the ordinary course of business, such as with a conference registration. When a prepayment or deposit is required, the Chapter Manager or Administrative Assistant should include with the supporting documentation information on why advance payment is necessary.

Finding IV: Written quotations were not obtained by the Chapter on applicable purchases.

Criteria

Pursuant to 26 N.N.C. § 101 (A), as noted in Procurement Policy and Procedures Manual section IV K, (1) on any purchase from \$500 to \$2,500, the Administrative Assistant may verbally obtain purchase and vendor information... the three verbal quotations shall be documented and include the vendor's name, identity of the individual(s) contacted, price quotation, date of contact, phone numbers and the method of contact (2) On any purchase from \$2,501 to \$8,000, the Administrative Assistant shall obtain two or more written quotations from different vendors. (3) For any purchase from \$8,000 to \$50,000, the Administrative Assistant shall obtain three or more written quotations from different vendors.

Condition

A sample of 16 purchases requiring quotations totaling \$87,580 was reviewed consisting of four items between \$500 and \$2,500 totaling \$6,107, ten items between \$2,501 and \$8,000 totaling \$50,868, and two items between \$8,000 and \$50,000, totaling \$30,605. The following was noted:

1. For four of 16 purchases reviewed totaling \$15,754 requiring two or more written quotations, the minimum required number of written quotes were not obtained.
2. Two of 16 purchases reviewed totaling \$30,605 required the Chapter to obtain three written quotations. For one purchase, no written quotations were obtained and for the other, only one written quotation was obtained.

Effect

Chapter policies were not adhered to. Purchases made without following the appropriate procurement guidelines prohibit competition, which impacts amounts paid by the Chapter for goods and services.

Cause

Chapter employees did not want to delay the purchases. Due to conditions resulting from the COVID-19 pandemic and the remote location of the Chapter impacting the willingness of vendors to deliver goods or provide onsite services, many vendors declined to provide quotes. Documentation was not maintained to indicate that multiple vendors were contacted and opted to not provide a quote. Authorized signers did not always verify documentation of quotes prior to signing checks.

Recommendations

1. Written quotes should be obtained by the Administrative Assistant in accordance with Chapter Procurement Policy. The Chapter Manager should ensure vendor quotation documentation is maintained and filed appropriately, and document situations when vendors decline to provide a requested quotation.
2. Authorized signers should not approve payments without required quotations and documentation.

Finding V: Payroll activities were not properly calculated or documented.

Criteria

Pursuant to 26 N.N.C. § 101 (A), as noted in the Fiscal Policies and Procedures Section VII H 2(c.): The Administrative Assistant is responsible for calculating the time and hours worked for each employee and shall enter the total hours on the timesheet. Timesheets shall also document regular and overtime hours worked, annual, sick leave and leave without pay taken during each pay period. Additionally, as stated in H.2(e): the Greasewood Springs Chapter Manager shall review all timesheets, and sign the payroll checks. Lastly, as stated in H.1(f), the Greasewood Springs Chapter will follow all applicable Navajo Nation, state and federal laws and regulations relating to payroll.

Condition

A sample of 20 payroll transactions totaling \$17,215 were reviewed. For five of 20 payroll transactions reviewed totaling \$3,513, employee pay could not be verified as accurate. In four transactions, the non-exempt employees were underpaid a total of 5 hours resulting from time worked over 40 hours or \$70, and in one case the employee was overpaid a total of 1.75 hours or \$17.50.

Effect

Chapter policies were not adhered to. Payroll accuracy errors resulted in a net underpayment of \$52.50 to employees. Additionally, the Chapter's reported financial payroll activity may not be properly stated.

Cause

The Chapter does not pay for time worked over 40 hours to temporary employees which caused the four underpayments and errors were not always caught during the review of payroll documentation.

Recommendations

1. The Chapter Manager and Administrative Assistant should ensure hours calculated for employee pay agree to the actual hours worked as noted by the signed time cards by reviewing not only the time sheets but the original time cards as well and comparing to the time paid. The Chapter should document in writing how pay is to be handled for non-exempt employees who work over 40 hours a week to avoid pay errors and inconsistencies.
2. The Chapter Manager should consistently communicate to employees that work hours within one week are not to exceed 40 hours and that prior authorization is required for work hours to exceed 40 to reduce the potential costs to the Chapter.

Finding VI: Personnel records were not properly maintained or documented.

Criteria

Pursuant to 26 N.N.C. § 101 (A), as noted in the Fiscal Policies and Procedures Section VII H.1(h.): Personnel records on each employee shall be maintained at the Greasewood Springs Chapter administration on authorized Greasewood Springs Chapter Forms. These records include but are not limited to: (a.) Personnel Action Form (PAF), (b.) Employment Application Form, (c.) Employee's Federal Withholding Allowance Certificate (W-4), (d) copy of Social Security Card, (e.) Voluntary Deductions Authorization, (f.) Employee Performance Evaluation Form, (g.) Arizona New Hire Form, (h.) Wage Garnishments, (pi.) Parental Consent Form, (j.) copy of voter registration.

Condition

We reviewed 12 individual employee files and noted all were missing required information. Seven were missing the Arizona New Hire Form, four were missing the IRS Form W-4, two were missing the Performance Evaluation Form, and one was missing voter registration documentation. Additionally, for one, an IRS Form W-9 was provided rather than the required Form I-9.

Effect

When personnel records are incomplete, government and legally mandated documents required by Chapter policies are not available as record of employee events.

Cause

The Chapter does not maintain cumulative employee files for temporary employees, but rather, initial information obtained is filed in a personnel file for the first fiscal year a temporary employee is hired only.

Recommendation

The Chapter Manager and Administrative Assistant should ensure all employee files contain all required documents. This could be accomplished through the use of a comprehensive document checklist. The Chapter should have a separate human resources file to maintain documents for all employees regardless of whether they are temporary or full time positions.

Finding VII: Supporting documentation for revenues allocated from the Navajo Nation was not on file.

Criteria

Pursuant to 26 N.N.C. § 101 (A), as noted in the Fiscal Policies and Procedures Section V D 3 and 4: The Greasewood Springs Chapter's accounting records provide the documentary support for account balances and must be properly maintained to provide fiscal accountability. Accounting records include source documents, journals, registers, ledgers and other supplementary records. The Chapter will maintain all accounting records in accordance with the Greasewood Springs Chapter Records Management Policy and Procedure Manual.

Condition

We reviewed three Navajo Nation revenue allocations totaling \$421,375 and noted the Chapter could not provide supporting documentation supporting the type and amount of revenue received for two of the three deposits reviewed totaling \$406,875.

Effect

Without supporting documentation for revenues, potential errors may not be caught or noted during the depositing or reconciling process.

Cause

The Chapter does not have a procedure in place to maintain information on the Navajo Nation revenue allocations at the Chapter, but rather, relies on the ASC to maintain the documentation of the types and amounts of revenue.

Recommendation

The Chapter Manager and Administrative Assistant should maintain documentation regarding all revenues received at the Chapter. Additionally, this information should be utilized by the Chapter's contracted accountant when verifying revenues when performing the bank reconciliations monthly.

Finding VIII: The most recent bank reconciliation reported checks outstanding more than 90 days.

Criteria

Pursuant to 26 N.N.C. § 101 (A), as noted in the Fiscal Policies and Procedures, VII, C.1.d, any outstanding check that exceeds 90 calendar days from issue date shall be automatically voided.

Condition

The outstanding check listing for the last month of the audit year was scanned. We noted four checks totaling \$5,152 outstanding more than 90 days. One was outstanding more than one year.

Effect

Outstanding checks may lead to inaccurate financial reporting of cash and can lead to improper financial decisions.

Cause

One outstanding check remained because the Chapter was waiting for the payee to return the check to avoid paying the void check fee of \$35. The other outstanding checks were not detected by the Administrative Assistant or Chapter Manager during the review of the reconciliation performed by the contracted accountant. Additionally, there was no evidence the contracted accountant notified Chapter personnel of the outstanding checks.

Recommendation

During the monthly bank reconciliation process, a review should be performed by the Chapter Manager regarding checks outstanding for more than 90 days and steps taken to research and void the payments.

Appendix

Background

The Navajo Nation Office of the Auditor General engaged Heinfeld, Meech, & Co. P.C. to perform an internal audit of the Greasewood Springs Chapter for the 12-month period ended September 30, 2021.

Greasewood Springs Chapter is a political subdivision of the Navajo Nation and is considered a general purpose local government for reporting purposes. The Greasewood Springs Chapter is located within the Fort Defiance Agency of the Navajo Nation.

The Greasewood Springs 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 Greasewood Springs Chapter are enumerated in Title 26, Local Governance Act (LGA) of the Navajo Nation Code. The Greasewood Springs Chapter is an LGA certified chapter since December 2010.

The local chapter government is managed by the Chapter Manager (CM) with administrative support provided by an Administrative Assistant (AA). 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 (ASC).

The majority of the Chapter's resources are provided through appropriations from the Navajo Nation central government. Other revenue is generated from miscellaneous user charges assessed by the Chapter for services and/or goods provided to its community members. Greasewood Springs Chapter's fiscal year 2021 operating budget was approximately \$1,094,500 which includes carryover funds from the prior year.

Objective

The objective of the internal audit was to examine the Chapter's internal controls; how well controls are designed, implemented, and operated to meet the Chapter's objectives in the following areas:

1. Financial transactions are authorized, valid, and properly recorded to permit the preparation of financial statements and other financial reports.
2. Assets are safeguarded against loss or misuse.
3. Chapter activities addressed by the five-management system comply with applicable laws and regulations.

Audit Methodology

In meeting the audit objectives, we interviewed the Chapter administration and officials, and examined available records. More specifically, we tested samples of cash receipts, payroll and non-payroll disbursements including capital disbursements for internal controls and compliance requirements by using a non-statistical, judgmental method.

Client Response



THE NAVAJO NATION
GREASEWOOD SPRING CHAPTER

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President: Calvin F. Lee * Vice-President: Julia Benally * Secretary/Treasurer: Linda S. Yazzie
Council Delegate: Elmer P. Begay * Grazing Official: Bill Spencer

JOHNATHAN NEZ, NAVAJO NATION PRESIDENT

MYRON LIZER, NAVAJO NATION VICE-PRESIDENT

May 12, 2022

Navajo Nation Office of The Auditor General
Helen Brown, Principal Auditor
Delegated Auditor General
Window Rock, AZ 86515



Re: *Response to Internal Audit Review*

Please accept this letter as a receipt to your Special Review of Greasewood Springs Chapter Internal Audit on April 28, 2022. Pursuant to N.N.C Title 12 §7A, we accept your final reviews and will work forward to form and implement a Corrective Action Plan and began to address these deficiencies.

If you should have any questions regarding this matter, please contact the Greasewood Springs Chapter at (928) 654-3239 or email at greasewoodsprings@navajochapters.org.

Thank You

Dereck Curley
Chapter Manager

Concurrence:

Calvin F. Lee, President

Julia Benally, Vice-President
Linda S. Yazzie, Secretary/Treasurer

Cc: file
Elmer P. Begay, Council Delegate
Eunice Begay, ASC, Senior Programs and Projects Specialist