



OFFICE OF THE AUDITOR GENERAL

The Navajo Nation

Internal Audit of the Tse Daa Kaan (Hogback) Chapter

**Report No. 22-09
June 2022**

**Performed by:
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June 30, 2022

Robert Lapahie, Jr., President
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Dear Mr. Lapahie:

The Office of the Auditor General herewith transmits Audit Report No. 22-09, an Internal Audit of the Tse Daa Kaan 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 accounting system is impractical and does not provide financial accountability.
- Finding II: The Chapter does not issue cash receipt tickets for all cash received.
- Finding III: Due to the manual accounting system, the Chapter commingled several funds in the Non-Administrative Cost fund.
- Finding IV: Fixed assets are not reported in a balance sheet.
- Finding V: Payroll taxes were remitted late to the Internal Revenue Service.
- Finding VI: Chapter property is not safeguarded against theft, damage, or misuse.
- Finding VII: Chapter property does not have identification tags.
- Finding VIII: The Chapter does not have a complete property inventory.
- Finding IX: Travel expenses are not supported with required documentation.
- Finding X: The Chapter utilizes a store charge account without important controls.
- Finding XI: Permanent positions are funded with PEP funds which are intended for job training and short-term employment.
- Finding XII: There is no consistency and accuracy in the method used to maintain leave hours for the Chapter staff.
- Finding XIII: The Chapter has incomplete personnel records for employees.
- Finding XIV: Sales taxes were not reported and remitted to the Navajo Nation.
- Finding XV: State unemployment taxes were not reported or remitted to the State.

Detailed explanations on 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,



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Delegated Auditor General

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REVIEW RESULTS

Finding I: The Chapter accounting system is impractical and does not provide financial accountability.

Criteria: Chapter Fiscal Policies and Procedures, Section V, states the accounting system's primary objectives are to provide reliable accurate and consistent financial information on a timely basis, to safeguard the Chapter's assets and to provide reasonable assurance that the Chapter complies with all applicable laws and regulations. The accounting system is to provide accounting records that support all account balances, and must be properly maintained to provide financial accountability for the Chapter.

Condition: The Chapter converted their accounting system from Fundware to MIP in 2017 but received no proper training to use the MIP system. As such, the Chapter devised a hybrid accounting system of manual spreadsheets and MIP. The Chapter posts revenues and expenditures in the MIP system but not budgets. Therefore, to determine fund balances, the MIP budget to actual is downloaded into Excel format and manually adjusted to record budgets, and calculate fund balances by object code. This practice revealed the following deficiencies:

MIP system:

1. Financial statements cannot be generated.
2. Fixed assets are not posted.
3. Fund balances, expenses, and revenues cannot be immediately determined.
4. Nine credit card payments totaling \$12,674 dating back to October 2020 to September 2021 were posted in January 2022 and backdated to applicable months.
5. 13 Payroll tax payments totaling \$66,270 for the months of October 2020 to July 2021 were posted in January 2022 and backdated to the applicable months.
6. 10 fund transfers totaling \$285,174 for the months of November 2020 to August 2021 from the primary checking account to the payroll checking account took five to 14 months to post to the accounting system and were backdated to the applicable transfer dates.

Manual system:

1. The Excel fund balance reports presented at monthly chapter meetings had calculation errors and the overall fund balance as of September 30, 2021 was incorrect by \$126,284.
2. Considering that the Chapter was backdating transactions as noted above, the fund balance report was unreliable.
3. Fixed assets are not reported in the fund balance report.

4. The fund balance report contains a \$63,299 variance to the reconciled bank balance as of September 30, 2021.
5. The total budgets entered to the manual accounting ledgers was higher by \$110,714 in comparison to the total approved budgets. The internally generated funds and external funds did not have approved budgets but were still posted in the manual accounting ledgers resulting in the variance.

Effect: The accounting system is unreliable and hinders the Chapter with:

- Providing an accurate financial position of the chapter to make informed financial decisions.
- Obtaining favorable financial statement audits.
- Serving as a reliable fiscal agent to manage external funds such as the AmeriCorps funds.

Cause:

- The Chapter Manager said her staff are not accountants and do the best they can, but yet no additional training was provided for the staff.
- The Chapter Manager does not review the manual accounting system against support documentation.
- The Chapter and Administrative Service Center do not have an active working relationship and the Chapter has not requested for assistance from the Administrative Service Center.

Recommendations:

1. The Chapter Manager should obtain assistance from the Administrative Service Center to train staff to use MIP, assist the Chapter to correct errors, fully convert the accounting system to MIP and discontinue its manual accounting practice.
2. The Chapter Manager should review MIP generated reports against support documentation for accuracy.
3. The Administrative Assistant should use the MIP accounting system to generate financial reports.
4. The Chapter Manager and Chapter Officials should review financial reports to identify any discrepancies.

Finding II: The Chapter does not issue cash receipt tickets for all cash received.

Criteria: Chapter Fiscal Policies and Procedures, Section VII.A, states the Chapter administrative staff will use a duplicate pre-numbered copy receipt form to record all cash received. The Administrative Assistant will record all cash received onto the cash receipts journal. The Chapter Manager will reconcile the cash, cash receipt tickets, and cash receipts journal prior to deposit.

Condition: The Chapter collected approximately \$17,000 in internally generated revenues, donations and county funds. However, the Chapter did not issue cash receipt tickets to customers upon receipt of funds. Although staff explained that they immediately post the cash receipt and issue a

printed receipt from MIP, the accounting system shows cash receipts were posted anywhere from 1-35 days after cash was received.

Effect: There is no assurance that all cash collected was posted and deposited.

Cause:

- The Chapter staff considers the use of cash receipt tickets duplicate work to record receipt information to a ticket then post the same information to the accounting system. However, the cash receipt tickets provide a proper audit trail to facilitate a reconciliation of all cash receipts.
- The Accounting Technician solely collects and enters cash receipts into the accounting system without review from the Administrative Assistant and Chapter Manager.

Recommendations:

1. The Chapter Manager should require staff to use prenumbered receipt tickets to record all cash received and issue duplicate copies to customers.
2. The Accounting Technician should post cash receipts based on pre-numbered tickets daily in the accounting system.
3. The Administrative Assistant should reconcile the posted cash receipts report in the MIP system to the cash receipt tickets to ensure all cash receipts are accounted for.

Finding III: Due to the manual accounting system, the Chapter commingled several funds in the Non-Administrative Cost fund.

Criteria: Chapter Fiscal Policies and Procedures, Section V, states the accounts of the Chapter will be organized by funds and account groups, each of which is considered a separate accounting entity for financial reporting purposes. Each fund will maintain a separate set of accounts for its assets, liabilities, reserve and funds equity.

Condition: The Chapters detailed budget identifies LGA funds, Emergency funds, PEP funds, Housing Discretionary Funds, and Scholarship funds as non-administrative funds which are restricted funds.

To simplify the accounting of these funds, the Chapter created one fund labeled as "Non-Administrative Cost Fund" and posted the budgets for these five funds totaling \$204,711 into this one fund, commingling the restricted funds. In the MIP system, separate fund codes are established to maintain separate accounting of Chapter funds.

Effect: This method of posting five funds under one fund does not allow the Chapter to readily identify fund balances and to verify funds are used for their intended purpose.

- Cause:
- The Administrative Assistant established the non-administrative cost fund in previous years without questions by the Chapter Manager or Officials so she did not consider it an issue.
 - The Chapter Manager does not monitor the accounting system and did not detect the commingling of restricted funds.

- Recommendations:
1. The Chapter Manager should require the Administrative Assistant to segregate funds in the accounting system based on the chart of accounts and review against approved budgets for accuracy.
 2. The Chapter Officials should review the financial reports each month to verify that funds are not commingled.

Finding IV: Fixed assets are not reported in a balance sheet.

Criteria: Chapter Fiscal Policies and Procedures, Section VII.G, states the fixed assets capitalization threshold shall be any property owned by the Chapter valued at \$500 or more. Accurate and reliable records shall be maintained on all fixed assets found, donated, and acquired, including depreciation records. If documentation is unavailable to establish the value of fixed assets, the Chapter Manager will estimate the value using the fair market value. Total fixed assets will be reported in the balance sheet.

Condition: The Chapter does not generate balance sheets, therefore does not report its fixed assets. However, the Chapter property inventory reported 40 fixed assets totaling \$527,403. To verify if the Chapter has support documentation (i.e. bill of sale, receipts, invoices, or appraisals) to substantiate the values reported, we examined 19 fixed assets totaling \$215,676 and all fixed assets (100%) did not have supporting documentation.

In addition, the Chapter depreciates its fixed assets but did not have records to support the depreciated amounts. As such, the values reported in the property inventory could not be verified as accurate.

Effect: In the absence of financial reports such as balance sheets, the community membership is not informed of chapter assets including fixed assets. In addition, an inaccurate property inventory submitted for insurance purposes will result in a possible over/under payment of insurance premiums. Lastly, the fixed assets reported in the property inventory totaling \$215,676 is unreliable.

- Cause:
- The Chapter Manager has not established a filing system for fixed asset records.
 - The Chapter Manager maintains the fixed asset property inventory but there is no independent review to ensure its accuracy.

- Recommendations:
1. The Chapter Manager should obtain a certified appraiser to value the fixed assets; otherwise use fair market value to identify reliable fixed asset values.
 2. The Chapter Manager 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 to maintain 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 MIP system.

Finding V: Payroll taxes were remitted late to the Internal Revenue Service.

Criteria: The Internal Revenue Service Regulations, Publication 15 (Circular E), requires payroll taxes collected during a month to be deposited to the bank by the 15th day of the following month. Noncompliance could result in fines and penalties.

Condition: We examined 12 months of payroll tax deposits and, of this number, six deposits totaling \$21,954 were late anywhere from one to three months after the due date.

Effect: The Chapter will likely be assessed penalties and fines that can result in unnecessary costs. These costs will likely be paid from funds that are reserved for other chapter purposes.

Cause:

- The Chapter explained that due to the government shutdown as a result of the COVID-19 pandemic, the Chapter was late on depositing payroll taxes. However, we noted the Chapter was still disbursing checks to pay other obligations during the months of the shutdown and therefore, had the opportunity to deposit payroll taxes.
- The Administrative Assistant is responsible for depositing taxes without supervision but was not always available to make these deposits. In her absence, no other staff was permitted to make deposits.

- Recommendations:
1. The Administrative Assistant should train the Accounting Technician to deposit payroll taxes in her absence.
 2. The Chapter Manager should confirm the Administrative Assistant/Accounting Technician deposit payroll taxes each month by the due dates.
 3. The Chapter Officials should review deposit receipts to confirm payroll taxes are paid timely each month.

Finding VI: Chapter property is not safeguarded against theft, damage, or misuse.

Criteria: Chapter Heavy equipment policies and procedures, Section III, states after each use, the equipment/vehicle shall be parked in a designated area within the chapter compound and unless authorized differently by the Chapter Manager, all equipment shall be returned to the Chapter by 4:30 p.m. to allow time for inspection. In addition, the operator shall forward the following reports to the Chapter Manager: a) Equipment Daily Report, b) Field Daily Report, and c) Vehicle Inspection Report. Furthermore, All operators shall be properly licensed to operate a vehicle and/or equipment. This may include, but is not limited to, a valid Driver's License, Navajo Nation Vehicle Operator's Permit, and for any specialized equipment or vehicle, the operator shall be certified.

Condition: The Chapter has heavy equipment such as a tractor with attachments, utility trailers (3), backhoe, work trucks (3), and skid steer. During the audit visit to the Chapter, it was found heavy equipment was stored at the personal residences of the Maintenance Technician and a community member who is a former chapter heavy equipment operator. There is no documented authorization for equipment to be stored off-site. The Chapter has a fenced area on chapter premises to store their equipment but the Chapter is allowing Navajo Division of Transportation to occupy the space for their equipment.

In addition, the Chapter staff do not require operators to submit the required daily reports, field daily reports, or vehicle inspection reports. Lastly, operators are not certified to operate heavy equipment.

Effect: Chapter property is not safeguarded against theft, damage or misuse. There are also potential liability issues with the lack of certified operators and with storing property at personal residences in the event of an accident, damage, or theft. In addition, there is no assurance that equipment is used for chapter business only.

Cause:

- Since Navajo Division of Transportation is utilizing chapter space, there is no space to store chapter equipment.
- The Chapter Manager explained that Chapter projects that require the use of heavy equipment are located far from the Chapter and are stored at the Maintenance Technician's home to reduce wear and tear on the equipment and to be closer to project sites. An onsite visit confirmed the home is not fenced and equipment is stored in an open space.
- The Chapter Manager explained the equipment stored at the community member's home is for security purposes because the home is a fenced property. An onsite visit by the auditor confirmed there is fencing but no locks to safeguard the equipment.

- Recommendations:
1. The Chapter Manager and Officials should reclaim the fenced area within chapter premises from Navajo Division of Transportation to store all chapter heavy equipment and vehicles.
 2. Until all chapter property is stored back on chapter premises, the staff should immediately inventory all property stored off-site, complete an inspection, and properly approve for temporary off-site storage.
 3. The Chapter Manager should comply with policies and procedures and require the operators to complete required reports daily for all equipment used.
 4. The Chapter Manager should require all heavy equipment operators to be certified and maintain records of certifications.
 5. The Chapter Officials should verify the completion of the inventory for off-site equipment, inspection report, approval and eventual relocation of property back to chapter premises.

Finding VII: Chapter property does not have identification tags.

- Criteria: Chapter Property Management Policies and Procedures, Section IV.D., states all Chapter property shall be identified by marking and/or tagging unless such marking would impair the utility of the item.
- Condition: For the review period, 19 property items that were examined had no identification tags. Most of the property items reviewed were located off-site so auditors completed site visits with the Chapter Manager to verify the property tags. At one location, the chapter property is commingled with the personal property of the homeowner and the Chapter Manager had difficulty identifying which property belonged to the Chapter until the homeowner helped identify chapter property.
- Effect: Chapter property totaling \$215,676 is at risk of being stolen without detection, or claimed as personal property by the homeowners who store equipment for the chapter. This could result in a potential financial loss to the Chapter.
- Cause: The Chapter Manager did not enforce the tagging of property and does not recognize the risk associated with untagged property.
- Recommendations:
1. The Administrative Assistant should purchase or create pre-numbered identification tags, tag all property, and record the identification numbers to the property inventory.
 2. The Chapter Manager should verify the tagging of property and recording of identification numbers to the property inventory.
 3. The Chapter Officials should periodically inspect property items to ensure they have identification tags and review it against the property inventory.

Finding VIII: The Chapter does not have a complete property inventory.

- Criteria: Chapter Property Policies and Procedures, Section VII.A, states that the Chapter shall maintain a complete, detailed and accurate identification of property at all times and reconcile annually or upon change.
- Condition: The Chapter does not maintain a complete and comprehensive inventory of chapter property. The Chapter property inventory submitted to Risk Management for insurance purposes does not include all property and lacks pertinent information to adequately identify the property items.
- Effect: The Chapter cannot provide reasonable assurance that all property and equipment owned and controlled by the Chapter was accounted for and safeguarded against loss or misuse. If property were lost or stolen, the Chapter will not be able to identify the property for insurance purposes.
- Cause:
- The Chapter Manager maintains the property inventory but there is no independent reviews to ensure its accuracy.
 - The Chapter Officials do not adequately monitor the activities and tasks by the Chapter Manager and consequently, the lack of a comprehensive property inventory went undetected.
- Recommendations:
1. The Chapter Manager should complete a physical count of Chapter property each year prior to the new fiscal year and update the Chapter property inventory with complete information. Any new property items should be added to the property inventory.
 2. The Chapter President should review the property inventory for completion each quarter and sign the inventory after review.

Finding IX: Travel expenses are not supported with required documentation.

- Criteria: Chapter Fiscal Policies and Procedures, Section VII.J, states the Administrative Assistant will complete a travel authorization form for travel request and obtain proof of current insurance and a valid driver's license from the traveler when using a personal vehicle. The travel authorization form will be submitted to the Chapter Manager for approval and signature. Upon completion of travel, the traveler shall complete the expense report, mileage report, and report for each trip describing the accomplishments and how the community benefited. Employees shall be reimbursed for actual mileage at the Navajo Nation established mileage rate.
- Condition: For the review period, 43 travel expenditures totaling \$8,591 were identified. Of this, 23 travel authorizations totaling \$5,298 were examined. The following exceptions were noted:
- 18 of 23 (78%) travel reimbursements did not have approved travel authorization forms and no evidence that travelers had vehicle

insurance and an active driver's license prior to travel. The only approved travel authorization was for a work session.

- 19 of 23 (83%) travel reimbursements did not have trip reports or expense reports. Instead, all reimbursements were supported only by mileage reports.
- 19 of 23 (83%) travel reimbursements involved mileage reimbursements that exceeded the maximum allowable mileage resulting in overpayments.

Effect: Travel expenses totaling \$4,788 are questionable. In addition, since there is no travel authorization, there is no assurance the Chapter Officials are fully aware of staff travel activities. Lastly, the Chapter puts itself at risk for liability in the event of an accident without approved travel, verification of vehicle insurance and driver's licenses.

Cause:

- The Chapter staff said they no longer prepare individual travel authorization forms for each travel to address chapter business due to the cost of printing travel authorization forms.
- The Chapter Officials signed checks without verifying required travel documents are submitted in accordance with policies.

Recommendations:

1. The Chapter staff and Officials should adhere to established travel policies and procedures.
2. The Chapter Officials should verify travel reimbursements are supported with required documentation in accordance with policies prior to approving travel reimbursement.

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

Criteria: LGA, Section 1004, states the chapter shall enact, by resolution, plans of operation for all executive functions, including but not limited to the Five Management System. In addition, business internal controls are essential to assuring the accomplishment of goals and objectives and more important, assets are protected against waste, fraud, and inefficiency.

Condition: The Chapter maintains a store charge account with a local store to purchase gasoline, food, and other supplies as needed. However, there is no written agreement that defines the terms and conditions of the store charge account, no chapter resolution that authorizes the charge account, and no policies and procedures to manage the account activities. As such, it is unclear when the account was initially established.

The Chapter Manager provided a credit card policy that was adopted by the community membership in November 2021 and claimed the policy addressed the store charge account. However, upon further review, the policy does not actually address the store charge account but rather a separate credit card used by the Chapter.

For the audit period, there were 21 disbursements totaling \$9,263 for the store charge account. All 21 disbursements were examined and supporting receipts reconciled to the store invoices. The Chapter primarily purchased gasoline, part/supplies and food. The Chapter Manager, Administrative Assistant, Accounting Technician and Maintenance Technician are the primary account users but, in some instances, summer youth employees were authorized to make gasoline purchases. The Chapter Manager said that since the administration staff were not always available to go to the store to make purchases, she would authorize other staff by calling the store to verbally authorize purchases.

Effect: Although the Chapter has supporting documentation on file to support the charge account payments, the Chapter lacks policies and procedures, proper authorization and an agreement which 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: Since the store charge account is convenient and makes it easy for the Chapter to obtain needed items in a timely manner, they did not recognize the risks of using a charge account without proper controls.

Recommendations:

1. The Chapter should create an agreement with the local store and obtain community approval for the charge account through chapter resolution.
2. The Chapter Manager should establish and adopt policies and procedures to include a) authorized account users, b) authorized purchases, c) authorized Chapter vehicles, d) spending limits and e) required documents to support payments.

Finding XI: Permanent positions are funded with PEP funds which are intended for job training and short term employment.

Criteria: Chapter PEP Policies and procedures, Section I, states the purpose of the funds is to provide on the job training and short-term employment for chapter residents. Chapter Fiscal Policies and Procedures, Section VI, states the Chapter Manager will notify the Chapter Officials if any changes in the budget occur after it is approved by the Chapter membership. At the next planning meeting, the Chapter Officials will discuss any such proposed amendments or modifications. Chapter funds shall not be expended without an approved annual budget and expenditures shall not exceed the budget amounts without prior approval by the Chapter membership.

Condition: The Chapter Accounting Technician and Maintenance Technician are permanent positions. These positions have been occupied by the same

individuals for several years. However, the Chapter's annual personnel budget does not include these positions. Rather, PEP funds earmarked for the Office Assistant and Rural Addressing Technician positions were used to fund the Accounting Technician Position. The PEP Equipment Operator budget is used to fully fund the Maintenance Technician position. These two positions are considered part of the administrative staff but they are paid out of the budget intended for short-term employment.

Effect: Budgets intended to fund four temporary positions as part of the Chapter's direct services to the community are being used to pay administrative costs to fund permanent positions totaling \$49,219. As such, the Chapter is unable to hire four community members for temporary positions to receive on the job training.

Cause: The Chapter Manager justifies that the Accounting Technician and Maintenance Technical fulfill all of the duties and responsibilities of the four temporary positions and as such, it is reasonable to pay these individuals out of the PEP funds. However, this justification was not presented and approved by the community membership.

Recommendations:

1. The Chapter Manager and Officials should modify the budget to fund full time positions for the Accounting Technician and Maintenance Technician and identify appropriate funds to pay these administrative costs.
2. The Chapter Manager and Officials should seek guidance and approval from the Administrative Service Center for the revised budget.
3. The Chapter Manager and Officials should present the revised budget to the community membership for approval.

Finding XII: There is no consistency and accuracy in the method used to maintain leave hours for the Chapter staff.

Criteria: Chapter Personnel Management policies and procedures, Section XI, states regular status employees will accrue annual leave based on years of service and per pay period as follows:

Less than 3 Years: 6 hours
3-12 years: 8 hours
More than 12 years: 10 hours

Furthermore, at the end of each leave year (based on calendar year), all annual leave hours accrued in excess of 320 hours shall be forfeited. Forfeited hours shall not be paid. Lastly, Section X states, the Chapter Manager or Administrative Assistant shall be responsible for recording all compensatory time which shall be acknowledged by the Chapter Manager or President on a Compensatory Time Earned form.

Condition: Although the Chapter has the MIP accounting system to maintain leave hours, the Chapter uses a manual Excel worksheet to document and track leave hours for the Chapter Manager and Administrative Assistant. However, the leave hours for the Accounting Technician and Maintenance Technician are maintained in the MIP accounting system.

In addition, the Chapter Manager explained that the leave hours for the Accounting Technician and Maintenance Technician are issued at 160 hours for the fiscal year regardless of the type of leave taken (personal or sick) instead of accruing leave every pay period. Any remaining hours are not carried over at year end. However, the leave report shows that only the Accounting Technician was issued 160 for the fiscal year whereas the Maintenance Technician was not issued any leave hours. Further, contrary to policies, the leave hours for the Chapter Manager and Administrative Assistant in excess of 320 hours are carried over at fiscal year-end rather than calendar year-end.

Lastly, we examined five of 26 pay periods for each of the four permanent staff (20 samples in total) to verify if leave hours taken per the timesheets are accurately recorded to the leave report. Five samples of leave taken by the Chapter Manager, Accounting Technician and Maintenance Technician were not accurately recorded to the leave report. Three of these samples are related to compensatory leave hours taken by staff but the chapter did not have compensatory time earned recorded and therefore leave hours taken per timesheets could not be traced to hours earned.

Effect: Leave hours available for staff to use are unreliable. Staff could be using leave hours they do not actually have. In addition, carrying over leave hours at the end of the fiscal year rather than calendar year end could result in inaccurate carry over of leave hours.

Cause:

- The Administrative Assistant maintains leave records without supervision and oversight by the Chapter Manager.
- The Chapter Manager issued 160 hours to the Accounting Technician and Maintenance Technician each fiscal year which is not a permitted practice per policies.

Recommendations:

1. The Administrative Assistant should consistently use the MIP accounting system to maintain leave hours for permanent staff.
2. The Chapter Manager should review the leave report to make sure leave accrued is consistent with personnel policy. Further, the Chapter Manager should verify approved leave is recorded to the leave report.
3. The Administrative Assistant should submit the leave report to the Chapter President during the payroll process to verify the accuracy of the Chapter Manager's leave report.

Finding XIII: The Chapter has incomplete personnel records for employees.

- Criteria: Chapter Fiscal Policies and Procedures, Section VII.I, requires personnel records for each employee to be maintained at the Chapter administration office, including personnel action forms.
- Condition: The Chapter did not have personnel action forms available for any of the permanent staff upon request.
- Effect: The Chapter cannot support the wages paid and benefits available to staff. There is no evidence employees are legitimate employees properly authorized to work for the Chapter.
- Cause: The staff said the files may be stored away, but these records were not provided by the end of the audit fieldwork.
- Recommendations:
 1. The Administrative Assistant should locate all personnel action forms for each employee and file them in personnel files at the chapter administration office.
 2. The Chapter Manager should review all personnel files to verify all personnel action forms are in personnel files.

Finding XIV: Sales taxes were not reported and remitted to the Navajo Nation.

- Criteria: Chapter Fiscal Policies and Procedures, Section III states that the Chapter shall comply with all applicable Navajo Nation laws such as the Navajo Nation Sales Tax Act. Navajo Nation Code Title 24, Section 612 (Filing of Return) requires tax payers to file a return indicating all sales from applicable gross receipts and the tax due for each period by the 15th day of the second month after the end of each calendar quarter.
- Condition: For the review period, the Chapter collected \$8,560 as internally generated revenue. Although the Chapter assessed sales tax on these revenues, the Chapter did not report or remit any payments to the Office of Navajo Tax Commission. The Chapter has \$506 posted in accounts payable ready to be paid.
- Effect: The Chapter will likely be assessed penalties and fines for no reporting and payment, which are unnecessary costs. Chapter funds intended for direct services will likely be used to pay these costs.
- Cause:
 - The Chapter Manager explained there was little to no cash receipt activity due to the Navajo Nation government shutdown as a result of the COVID-19 pandemic, but the accounting system reported over \$8,000 in revenues.
 - The Chapter Manager did not require the Administrative Assistant to comply with sales tax regulations.

- Recommendations:
1. The Administrative Assistant should identify all sales taxes due each quarter, prepare tax reports and fund approval form for submission to the Chapter Manager and Officials for review and approval prior to the due date.
 2. The Chapter Manager and Officials should confirm that the Administrative Assistant submits quarterly sales tax report and payment to the Office of Navajo Tax Commission by the due date.

Finding XV: State unemployment taxes were not reported or remitted to the State.

Criteria: Chapter Fiscal Policies and Procedures, Section VII.I.2.q, states the Chapter will participate in the State Unemployment Compensation Act Fund. According to the New Mexico Unemployment Insurance Handbook, an employer's report and quarterly contributions must be remitted by the last day of the month immediately following the end of the calendar quarter. Late payments are subject to penalties and interest.

Condition: For the review period, four quarters of state unemployment tax reporting and payments were examined and all four (100%) quarters were not reported or remitted to the State. The Chapter has \$318 posted in accounts payable ready to be paid.

Effect: The Chapter will likely be assessed penalties and fines that can result in unnecessary costs. The unnecessary costs will likely be paid from funds that are reserved for other chapter purposes.

Cause:

- The Chapter explained that due to the government shutdown as a result of the COVID-19 pandemic, the Chapter was late on paying unemployment taxes. However, the Chapter was still disbursing checks to pay other obligations during the months of the shut down and had the opportunity to remit the contributions.
- The Chapter Manager did not require the Administrative Assistant to comply with state unemployment regulations.

- Recommendations:
1. The Administrative Assistant should identify all unemployment taxes due each quarter, prepare tax reports and fund approval form for submission to the Chapter Manager and Officials for review and approval prior to the due date.
 2. The Chapter Manager and Officials should confirm that the Administrative Assistant submits quarterly unemployment tax reports and payments to the New Mexico Workforce Solutions by the due dates.

CONCLUSION

The Chapter accounting system is impractical and does not provide financial accountability. The Chapter does not issue cash receipt tickets for all cash received. Due to the manual accounting system, the Chapter commingled several funds in the Non-Administrative Cost fund. Fixed assets are not reported in a balance sheet. Payroll taxes were remitted late to the Internal Revenue Service. Chapter property is not safeguarded against theft, damage, or misuse. Chapter property does not have identification tags. The Chapter does not have a complete property inventory. Travel expenses are not supported with required documentation. The Chapter utilizes a store charge account without important controls. Permanent positions are funded with PEP funds which are intended for job training and short term employment. There is no consistency and accuracy in the method used to maintain leave hours for the Chapter staff. The Chapter has incomplete personnel records for employees. Sales taxes were not reported and remitted to the Navajo Nation. State unemployment taxes were not reported or remitted to the State.

As a Local Governance certified chapter, the Tse Daa Kaan Chapter is held to a higher standard which requires the Chapter to consistently and continuously ensure the Chapter maintains adequate internal controls to safeguard assets, ensure reliability of its financial reporting, and comply with applicable laws, regulations, policies and procedures. However, Tse Daa Kaan Chapter is currently not functioning at the level that a certified chapter should in order to demonstrate sufficient accountability and fiscal responsibility. The Chapter Manager expressed concerns that once the chapter was Local Governance certified, there was no guidance from the Navajo Nation on how to function independently and the Chapter had to learn on its own. In addition, in 2017, the Chapter converted their accounting system from Fundware to MIP and after five years, the accounting staff is still learning the system which has delayed the full implementation of the MIP accounting system.

Considering the status of the Chapter, the Office of the Auditor General recommends that the Administrative Service Center take a more active role with the Tse Daa Kaan Chapter operations and finances. The Administrative Service Center should maintain a consistent presence at the Chapter to provide hands on technical assistance, training, and on-site monitoring to bring the Chapter back to a satisfactory status. Furthermore, the Chapter should use this as an opportunity to receive training and feedback for improvement.

The Administrative Service Center should complete the following:

1. Provide Navajo Nation and Chapter policies and procedures training and guidance to the Chapter staff and Officials.
2. Complete monthly on-site visits to the Chapter to verify consistent implementation of Navajo Nation and Chapter policies and procedures.
3. Assist the Chapter to develop policies and procedures for processes not addressed in the Five Management System manual.
4. Assist the Chapter to update their Five Management System manual.
5. Assist and train the accounting staff to correct accounting system issues and generate reliable financial statements.
6. Ensure Chapter funds are used in accordance with funding guidelines.
7. Train the Chapter Officials in their duties and responsibilities to provide monitoring and oversight.
8. Assist the Chapter in addressing audit issues with corrective measures.

BACKGROUND

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

The Tse Daa Kaan Chapter is a political subdivision of the Navajo Nation and is considered a general-purpose local government for reporting purposes. The Tse Daa Kaan Chapter is located within the Northern Agency of the Navajo Nation.

The local chapter government is managed by the Chapter Manager with administrative support provided by the Administrative Assistant. 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 Chapter Manager has been with the Chapter since 1998 and the Administrative Assistant since 2003.

The Tse Daa Kaan 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 Tse Daa Kaan Chapter are enumerated in Title 26, Local Governance Act of the Navajo Nation Code. The Tse Daa Kaan Chapter is an LGA certified chapter since June 2007.

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. Tse Daa Kaan Chapter's operating budget for the review period was approximately \$1,247,912.

Objective, Scope, and Methodology

The Office of the Auditor General conducted an Internal Audit of the Tse Daa Kaan 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:

- a. The accounting system is capable of issuing accurate and reliable financial reports in a timely manner.
- b. The Chapter has reliable inventory records to accurately report fixed asset values.
- c. The Chapter's quarterly payroll tax reports are accurate and monthly taxes are remitted by the established due dates.
- d. Chapter property/equipment is stored and safeguarded on chapter premises.
- e. Property records are complete and property is tagged with identification numbers.
- f. Chapter travel is properly approved and supported with required documentation.
- g. The Chapter maintains controls for the store charge account with a local store.
- h. Wages paid to permanent employees are consistent with the approved salaries per the chapter's annual budget.
- i. The permanent Chapter staff's leave records accurately record accrued leave and used leave.
- j. The Chapter's quarterly Navajo Nation Sales Tax reports are accurate and taxes are remitted by the established due dates.
- k. The Chapter's quarterly unemployment reports are accurate and taxes are remitted by the established due dates.

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

In meeting the audit objective, we interviewed the Chapter administration and Officials, observed Chapter operations, and examined available records. More specifically, we tested samples of fixed assets, disbursements and required tax reporting for internal controls and compliance requirements by using a non-statistical, judgmental method. Credit card activities were not reviewed as part of this audit due to a separate on-going audit for this area of activity.

Government Auditing Standards

We conducted this 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 Tse Daa Kaan Chapter Officials and administration for their cooperation and assistance throughout the audit.

CLIENT RESPONSE



Tse Daa K'ân Community Chapter



June 22, 2022

Navajo Nation
The Office of the Auditor General
Attn: Helen Brown, CFE, Principal Auditor
P.O. Box 708
Window Rock, Arizona 86515



RE: Response to the Final Draft Internal Audit for Tse Daa Kaan Chapter

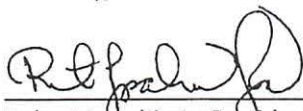
Dear Ms. Brown.

The Tse Daa Kaan Chapter has received and reviewed the final draft of the Internal Audit of the Tse Daa Kaan Chapter dated June 16, 2022, covering the Fiscal Year Ending September 30, 2021. The Tse Daa Kaan Chapter accepts the audit report and has begun the process of a Corrective Action Plan with guidance from the Shiprock Administrative Services Center.

The Tse Daa Kaan understands and accepts the guidance and explanations expressed during the June 16, 2022, Exit Conference. Additionally, the Tse Daa Kaan is readily taking steps to address the 15 findings. The Tse Daa Kaan Chapter will continue to implement the recommendations to ensure the chapter administration and officials continue to operate in full transparency and at the highest level to keep the integrity and goodwill of the local community.

If you should have any questions or comments, please contact the Tse Daa Kaan Chapter by calling (505) 368-1599 or email us at tsedaakaan@navajochapters.org.

Sincerely,


Robert L. Pahie Jr. President


Anita Hayes, Chapter Manager

Cc: TseDaaKaan Chapter Officials
Honorable Ricky Nez, Council Delegate
Dr. Pearl Yellowman, Director, DCD
Ms. Sonlatsa Jim-Martin, Department Manager II, DCD-ASC
Ms. Eliza-Beth Washburn, SPPS, Shiprock ASC