



OFFICE OF THE AUDITOR GENERAL

The Navajo Nation

Internal Audit of the Rock Point Chapter

**Report No. 22-11
August 2022**

**Performed by:
WIPFLI LLP**



August 31, 2022

Patterson Yazzie, President
ROCK POINT CHAPTER
P. O. Box 190
Rock Point, AZ 86545

Dear Mr. Yazzie:

The Office of the Auditor General, in conjunction with WIPFLI LLP, herewith transmits Audit Report No. 22-11, an Internal Audit of the Rock Point 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, the auditors identified the following issues:

FINDING I: Capital assets are not accurately reported in the financial statements.
FINDING II: Selected purchases do not have approved purchased requisitions.
FINDING III: Not all capital asset purchases were capitalized.

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: Janice L. Jim, Vice-President
Nancy J. Harvey, Secretary/Treasurer
Charlene Kirk, Community Services Coordinator
Carl R. Slater, Chapter Delegate
ROCK POINT CHAPTER
Sonlatsa Jim-Martin, Department Manager II
Edgerton Gene, Senior Programs and Projects Specialist
ADMINISTRATIVE SERVICES CENTER/DCD
Grant Eve, CPA, CFE, Partner
Jamison Scarpelli, CPA, Senior Manager
WIPFLI LLP
Chrono

Rock Point Chapter

For the Year Ended September 30, 2021

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Report on the Internal Audit of Rock Point Chapter

Navajo Nation
Office of the Auditor General
PO Box 708
Window Rock, AZ 86515

In accordance with the contract (CO15272) dated April 28, 2022 and our engagement letter dated March 30, 2022, we have completed our independent testing for the fiscal year ended September 30, 2021 for the internal audit of the Rock Point Chapter ("the Chapter") within the Navajo Nation.

This engagement was performed in accordance with the Statement on Standards for Consulting Services as issued by the American Institute of Certified Public Accountants and, if applicable, under Governmental Auditing Standards, issued by the Comptroller General of the United States. This report is intended solely for the information and use of Office of the Auditor General and the Rock Point Chapter and is not intended to be and should not be used by anyone other than these specified parties. Distribution of this information by these specified parties to other third parties does not constitute designation of those third parties as "users" or "specified parties" with respect to the matters addressed herein, nor does it permit those third parties to use or rely upon this information for any purpose.

The objective was to develop findings, conclusions, and recommendations related to internal controls to safeguard assets, ensure reliability of its financial reporting, and comply with applicable laws, regulations, and policies and procedures. The following issues were identified as a result of our engagement:

Finding 1: Capital assets are not accurately reported in the financial statements.

Finding 2: All capital asset purchases do not have approved purchase requisitions.

Finding 3: Not all purchases of capital assets were capitalized.

Detailed explanations on all issues have been included in Appendix A of this report. The report provides recommendations for remediation of the reported findings. Appendix B is included in this report to explain the background, the objective of our procedures, and the methodology used to determine the procedures performed. Appendix C supports the findings noted in Appendix A.

In performing our engagement, we relied on the accuracy and reliability of information provided by Chapter's personnel.

We wish to thank management and its staff for assistance provided during the engagement. Please contact us if you have any questions or need further assistance.

A handwritten signature in black ink that reads "Wipfli LLP". The signature is written in a cursive, flowing style.

Great Falls, Montana
August 30, 2022

APPENDIX A

Rock Point Chapter

Summary of Findings

For the Year Ended September 30, 2021

Finding I: Capital assets are not accurately reported in the financial statements.

Criteria: Under the Navajo Nation's Five Management Systems Property Policies and Procedures, Section VII(b)(5), the Chapter Manager shall record in the Chapter's accounting records and financial report statements on the Chapter's Capital Assets in the subsidiary ledgers. Subsidiary Ledgers are detailed records and amounts of individual property items listed as Capital Assets (buildings, infrastructure, or improvements other than buildings, machinery and equipment, and construction in progress). These ledgers permit for the reconciliation between the General Ledger and Subsidiary Ledgers.

Condition: As of September 30, 2021, a capital asset module was not implemented and being used as part of the accounting system. The Chapter reached out to Administrative Service Center for assistance on posting fixed asset purchases to the general ledger. The Chapter is unable to accurately report capital assets in the balance sheet. As of September 30, 2021, the Chapter reported \$840,737 in capital assets on the balance sheet. The Chapter's capital assets should have been \$905,483 at year-end. See Finding 1 on page 9 for support.

Effect: Inaccurate recording of fixed assets can lead to incorrect financial statements and calculations of depreciation expense.

Cause: The Chapter Staff do not maintain proper accounting records for capital assets. The Secretary/Treasurer does not verify that the capital assets reported in the balance sheet are accurate.

Recommendation: (1) The Community Services Coordinator should maintain general ledgers for all capital asset owned and reconcile the Chapter inventory list maintained by the Administrative Assistant on an annual basis to the general ledger. (2) The Chapter staff should seek technical assistance from the Administrative Service Center on how to post the capital assets value to the accounting system. (3) The Secretary/Treasurer should verify that the capital assets reported in the balance sheet is accurate by reviewing it against the capital asset files.

Rock Point Chapter

Summary of Findings

For the Year Ended September 30, 2021

Finding II: Selected purchases do not have approved purchased requisitions.

Criteria: Under the Navajo Nation's Procurement Policies V(a)(2)(a), the Administrative Assistant shall identify a need to procure services, supplies or equipment for chapter purposes or projects, and initiate the purchase requisition, based on availability of funds.

Condition: The total expenditures that would be subject to the procurement policies and procedures were \$105,536, and the total value of the sample selection was \$12,274. We sampled three purchases, noting two of them did not have approved purchase requisitions. Both were approved by Chapter Resolution. The total value of these purchases totaled \$8,985. See Finding 2 on page 9 for support.

Effect: Not obtaining approval before purchases can lead to unapproved purchases, or even improper use of restricted funds.

Cause: Purchase requisitions were not being used by the Chapter.

Recommendation: The Chapter administrative staff should follow the approved policies and procedures until they can be updated with the current procedures they are performing.

Finding III: Not all capital asset purchases were capitalized.

Criteria: Under the Navajo Nation's Five Management Systems Property Policies and Procedures Section IV(J), all property and equipment of a value of more than \$1,000 shall be capitalized and recorded in the Chapter's Capital Asset Ledger.

Condition: We reviewed capital asset purchases, noting that there were purchases of property that were not properly capitalized as capital assets. The Chapter presented \$44,203 of capital asset purchases as expenditures on the trial balance. See Finding 3 on page 9 for support.

Effect: Inaccurate recording of fixed assets can lead to incorrect financial statements and calculations of depreciation expense. This could lead to capital asset purchases not being tracked.

Cause: The Chapter Staff do not maintain proper accounting records for capital assets.

Recommendation: (1) The Chapter should follow the approved policies and procedures. (2) The Chapter staff should seek technical assistance from the Administrative Service Center on how to post the capital assets value to the accounting system. (3) The Secretary/Treasurer should verify that the capital assets reported in the balance sheet is accurate by reviewing it against the capital asset files.

APPENDIX B

Rock Point Chapter

Background, Objective, Methodology

For the Year Ended September 30, 2021

Background

The Navajo Nation Office of the Auditor General engaged Wipfli LLP to perform consulting services related to the internal audit of the Rock Point Chapter for the twelve-month period ending September 30, 2021.

The Rock Point Chapter is a political subdivision of the Navajo Nation and is considered a general purpose local government for reporting purposes. The Rock Point Chapter is located within the Navajo Nation.

The local chapter government is managed by the Community Services Coordinator with administrative support provided by the Account Maintenance Specialist. Oversight is provided by the elected chapter officials comprised of the President, Vice-President and Secretary/Treasurer. Additional oversight is provided by the Navajo Nation Division of Community Development/ Administrative Service Centers.

The Rock Point Chapter operates under the five-management system with policies and procedures addressing five key system components: fiscal management, personnel management, property management, records management, and procurement.

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. The Rock Point Chapter's fiscal 2021 operating budget was approximately \$566,598, which includes carryover funds from the prior year.

Rock Point Chapter

Background, Objective, Methodology

For the Year Ended September 30, 2021

Objective

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

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

Methodology

In meeting the listed objectives, we interviewed the Chapter administration and officials, and examined available records. More specifically based on remote work, we tested samples of cash receipts, payroll, and non-payroll disbursements, including fixed asset purchases for internal controls and compliance requirements. The approved annual budget was compared to actual expenditures during the year and tied out to the carryover without exception. We reviewed restricted funds and compared their usage for compliance with their restrictions. Cash amounts and bank reconciliations were reviewed around the fiscal year-end. Capital asset purchases were reviewed, and an observation of capital assets was completed. Chapter meeting minutes were reviewed during the year, including the Chapter's review and approval monthly financial information.

APPENDIX C

Rock Point Chapter

Support for Findings

For the Year Ended September 30, 2021

Finding 1:

Capital asset rollforward compared to the amount recorded in the general ledger. Some fixed asset additions were incorrectly expensed instead of capitalized. To correct the trial balance at year-end, an adjustment is necessary to capitalize expenses related to fixed asset purchases.

Account Number	Account Name	Beginning Balance	Additions	Ending Balance	G/L Balance	Variance
1311	Office Equipment	\$ 13,844.04	\$ 4,704.20	\$ 18,548.24	\$ 19,198.88	\$ (650.64)
1312	Heavy Equipment	97,000.00	363,176.96	460,176.96	439,616.00	20,560.96
1313	Other Equipment	2,073.47	-	2,073.47	2,073.47	-
1314	Office Furniture	1,048.89	4,763.91	5,812.80	1,048.89	4,763.91
1318	Buildings	374,000.00	44,871.45	418,871.45	378,800.00	40,071.45
		<u>\$ 487,966.40</u>	<u>\$ 417,516.52</u>	<u>\$ 905,482.92</u>	<u>\$ 840,737.24</u>	<u>\$ 64,745.68</u>

Finding 2:

Sampled purchases do not have approved purchased requisitions.

Chapter Resolution	Description	Theshold	Actual Cost	Chapter Approval	Approved Purchase Requistion
RPC-2021-46	Laptop and scanners purchases	\$2,501-\$10,000	\$ 3,552.36	Yes	No
RPC-2020-89	Wood and Hay	\$2,501-\$10,000	\$ 5,432.50	Yes	No
			<u>\$ 8,984.86</u>		

Finding 3:

Amounts were purchased but not recorded in general ledger.

Account	Asset	Cost	Capitalized Amount
6804	Laptop	\$ 1,211.55	\$ -
6804	Laptops and scanners purchases	3,552.36	-
6801	Construction Equipment	12,554.29	-
6806	Buildings	19,581.28	-
6807	Chapter Renovation	4,014.39	-
6101	Temporary Wages for Chapter Renovation	3,288.99	-
		<u>\$ 44,202.86</u>	<u>\$ -</u>

CLIENT RESPONSE

GRAZING REPRESENTATIVE
Reeder Descheny, District 9 Grazing Rep.

COUNCIL DELEGATE
Carl Slater, Council Delegate

ROCK POINT CHAPTER
NAVAJO NATION
P.O. Box 190
Rock Point, Arizona 86545
Phone #: (928) 659-4350/ 4351
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CHAPTER OFFICIALS
Patterson Yazzie, President
Janice L. Jim, Vice-President
Nancy J. Harvey, Secretary-Treasurer
ADMINISTRATION
Charlene Kirk, Community Services Coordinator
Mary L. John, Accounts Maintenance Specialist

August 16, 2022

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



RE: Wipfli, LLP – Final Report


Dear Ms. Brown:

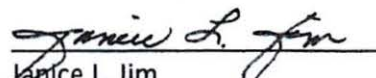
The Rock Point Chapter has received and reviewed the final draft of the Internal Audit of the Rock Point Chapter dated August 16, 2022 covering Fiscal Year 2021. The Rock Point Chapter accepts the audit report, and has begun the process of a Corrective Action Plan with guidance from the Chinle Administrative Services Center.

The Rock Point Chapter understands and accepts the guidance and explanations expressed during the August 16, 2022 Exit Conference. The Rock Point Chapter is readily to taking steps to address all audit findings. The Rock Point Chapter will continue to implement all recommendations to ensure the Chapter Administration and officials continue to operating in full transparency and at the highest professional level to keep the faith, integrity and goodwill of the local community.

If you have any further questions or comments, please contact the Rock Point Chapter by calling (928)659-4350 or by email at rockpoint@navajochapters.org

Respectfully,


Patterson Yazzie
Chapter President


Janice L. Jim
Chapter Vice-President


Charlene Kirk
Community Services Coordinator


Nancy J. Harvey
Chapter Secretary-Treasurer

Cc: Rock Point Chapter Officials
Honorable Carl Slater, Council Delegate
Dr. Pearl Yellowman, Director, DCD
Ms. Sonlatsa Jim-Martin, Department Manager II, DCD-ASC
Ms. Edgerton Gene, SPPS, Chinle Agency ASC