

# **OFFICE OF THE AUDITOR GENERAL**

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## **The Navajo Nation**

### **A Special Review of the Kin Dah Lichii' Chapter**

**Report No. 23-01  
December 2022**

**Performed by:  
Marcale Kaskalla, Auditor  
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December 30, 2022

Larry Curtis, Sr., President  
**KIN DAH LICHII' CHAPTER**  
P.O. Box 860  
St. Michaels, AZ 86511

Dear Mr. Curtis:


The Office of the Auditor General herewith transmits Audit Report No. 23-01, A Special Review of the Kin Dah Lichii' 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 36-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: Lack of controls results in undeposited cash receipts of \$3,287.
- FINDING II: Without a perpetual inventory for resale items, the Chapter cannot account for hay worth \$41,410.
- FINDING III: Unauthorized bonuses were paid to ineligible Chapter staff.
- FINDING IV: The Chapter incorrectly paid out accrued annual leave hours to active employees.
- FINDING V: Contrary to policy, exempt employees were paid overtime.
- FINDING VI: Required documentation to support special duty paid to employees were not filed.
- FINDING VII: Payroll taxes applicable to employee bonuses, special duty pay, and annual leave payouts were not withheld and remitted to the IRS.
- FINDING VIII: Wage adjustments cannot be justified with proper documentation.
- FINDING IX: Employee leave reports generated by the Chapter's payroll system are unreliable.
- FINDING X: The Chapter did not verify employees met minimum job qualifications prior to assigning them into acting status positions.
- FINDING XI: The Chapter cannot account for all property and equipment.
- FINDING XII: The Chapter did not verify the eligibility of scholarship assistance recipients.
- FINDING XIII: The Chapter did not verify the eligibility of housing assistance recipients.
- FINDING XIV: The Chapter cannot demonstrate they followed the hiring process.

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: Alfred James, Vice-President  
Mike Tsosie, Secretary/Treasurer  
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## TABLE OF CONTENTS

	<b>PAGE</b>
<b>REVIEW RESULTS</b> .....	1
FINDING I: Lack of controls results in undeposited cash receipts of \$3,287.....	1
FINDING II: Without a perpetual inventory for resale items, the Chapter cannot account for hay worth \$41,410.....	2
FINDING III: Unauthorized bonuses were paid to ineligible Chapter staff.....	3
FINDING IV: The Chapter incorrectly paid out accrued annual leave hours to active employees.....	4
FINDING V: Contrary to policy, exempt employees were paid overtime.....	5
FINDING VI: Required documentation to support special duty paid to employees were not filed.....	6
FINDING VII: Payroll taxes applicable to employee bonuses, special duty pay, and annual leave payouts were not withheld and remitted to the IRS.....	7
FINDING VIII: Wage adjustments cannot be justified with proper documentation.....	8
FINDING IX: Employee leave reports generated by the Chapter's payroll system are unreliable.....	9
FINDING X: The Chapter did not verify employees met minimum job qualifications prior to assigning them into acting status positions.....	10
FINDING XI: The Chapter cannot account for all property and equipment.....	11
FINDING XII: The Chapter did not verify the eligibility of scholarship assistance recipients.....	12
FINDING XIII: The Chapter did not verify the eligibility of housing assistance recipients.....	13
FINDING XIV: The Chapter cannot demonstrate they followed the hiring process.....	14
CONCLUSION.....	15
APPENDIX A: BACKGROUND.....	16
APPENDIX B: OBJECTIVE, SCOPE AND METHODOLOGY.....	17
CLIENT RESPONSE.....	18

## REVIEW RESULTS

### **Finding I: Lack of controls results in undeposited cash receipts of \$3,287.**

**Criteria:** FMS Fiscal Policies and Procedures, Section VII.A., requires the Chapter to record cash receipts, safeguard cash, post cash receipts daily, reconcile cash to receipt tickets and posted receipts to verify its accuracy, investigate and resolve any discrepancies immediately, deposit cash receipts within 10 days of receipt, and post deposits to the accounting ledgers. If the Chapter Manager/Officials determine any negligence or willful wrongdoing on the part of the Chapter staff, immediate action will be taken in accordance with the policies.

**Condition:** A comparison of bank deposits to posted cash on hand identified undeposited cash of \$3,287 in FY 2020. Although the balance sheet reported undeposited cash, the former Chapter Manager did not address this discrepancy. The current administration said this cash is not on hand at the Chapter.

In reviewing the cash receipts process, we noted the following internal control deficiencies that contributed to the undeposited cash receipts.

1. Cash receipt ticket books were missing except for six books which covered a period of 15 of the 156 weeks in the three-year review period. As such, it is unknown if all tickets were posted to the accounting system.
2. Beginning January 2019, the former Administrative Assistant posted cash receipts in batches. Therefore, for a sample selection of 10 transactions, it could not be determined if tickets were accurately posted to the accounting system.
3. Receipts were not posted daily. Rather 85% of receipts were posted the next day up to 14 days later, while 2% of receipts were posted two weeks up to one year later.
4. In FY2021, the Chapter did not deposit cash receipt within 10 days. Of the 20 cash receipt deposits, 15 were deposited after 10 days anywhere from 12 days up to one month after receipt.
5. There were over 300 reversing and adjusting entries to posted deposits in the accounting system. None of these were documented and approved. There was no clear reason for the entries.
6. Large amounts of cash are held on hand at the chapter. Of the 20 deposits in FY2021, 16 were for amounts from \$1,018 to \$4,857.
7. According to the current Chapter Manager, the FY2022 cash receipts were not posted for the months of March 2022 to the end of fieldwork in September 2022 due to no Administrative Assistant. The Administrative Service Center will be assisting in posting cash receipts since the Chapter Manager is not trained to use MIP. As such, controls over cash receipts continue to be an issue.

**Effect:** Cash receipts totaling \$3,287 were not deposited to the bank and therefore unaccounted for by the Chapter. Further, without cash receipt tickets, it cannot be determined if all tickets were posted to the accounting system. Therefore, unrecorded and undeposited cash receipts could be potentially higher.

**Cause:**

- Despite claims that cash receipt ticket books were used to record the receipt of cash, the staff was unable to locate the receipts books. Prior year records were stored in boxes but not organized in a manner to allow for easy location and retrieval.
- The former Chapter Manager did not verify cash against receipt tickets and posted receipts for accuracy prior to deposit.
- Although the balance sheet showed a high amount of cash on hand, the former Chapter Manager did not investigate and resolve the issue nor did the officials direct the staff to address the issue.

**Recommendations:**

1. The Chapter Manager should monitor the Administrative Assistant is recording cash receipts to ticket books and posting on a daily basis.
2. The Chapter Manager should reconcile all cash to receipt tickets and posted cash receipts prior to deposit and require the Administrative Assistant to address any discrepancies immediately. Significant discrepancies should be immediately reported to the Chapter officials for further action.
3. The Chapter Manager should deposit cash weekly or at least within 10 days of receipt and the officials should review deposit receipts to verify timely deposits.
4. The Chapter Manager should establish a limit for maintaining cash on hand and immediately deposit cash when the limited is reached or convert cash to money order and endorse the money order to the Chapter until a deposit can be made.
5. The Chapter Manager should categorize chapter files and create a records inventory for prior year records for easy retrieval.

**Finding II: Without a perpetual inventory for resale items, the Chapter cannot account for hay worth \$41,410.**

**Criteria:** FMS Fiscal Policies and Procedures, Section VII.J.1, 3, and 7, states the Chapter shall maintain detailed records of inventory items showing the description, cost, quantity and location of resale items. Verification of the inventory shall be made on a monthly basis through a physical count. The Chapter shall maintain support documentation on all inventory transactions on an ongoing basis. These records shall reflect the inventory receipts, issuances, and balances.

**Condition:** For the review period, total hay purchases were \$133,252. According to the Chapter officials, the Chapter resells hay to community members at the purchase price. However, the Chapter did not maintain a perpetual inventory for their hay activities. A comparison of total hay expenditures

to total hay revenues revealed unaccounted hay revenues of \$41,410. Based on the unit purchase price, this is equivalent to approximately 3,040 bales of hay that is missing.

**Effect:** Without an inventory to track hay activities, the Chapter is unable to detect lost or stolen hay in a timely manner. Further, the missing hay is a financial loss for the Chapter and limits the Chapter in purchasing more hay for the community.

**Cause:**

- The Secretary/Treasurer claimed the staff maintained a resale inventory but this could not be confirmed since these records were not found on file.
- The staff and officials did not monitor resale activities which should have detected the disparity between expenses and revenues.
- The Chapter officials also explained that temporary employees were hired to help with hay distribution and given five bales as payment for their services, but this action was not documented and cannot be verified.

**Recommendations:**

1. The Chapter Manager should create and require the staff to use a detailed perpetual hay inventory to record purchases, sales, and available inventory.
2. The Chapter Manager, or someone independent, should perform periodic physical counts of hay, and compare the recorded hay inventory balance against actual hay on hand to verify the accuracy of the perpetual inventory.
3. The Chapter Manager should investigate and resolve any discrepancies in the hay inventory immediately.
4. The Chapter officials should review the hay inventory to verify the staff is maintaining an up-to-date inventory and completing periodic physical counts.
5. The Chapter Manager should verify that the Administrative Assistant has created a file for the resale inventory activities.

**Finding III: Unauthorized bonuses were paid to ineligible Chapter staff.**

**Criteria:** FMS Personnel Policies and Procedures, Section VII.I., states that to be eligible for a bonus, an employee must meet the following:

1. Be regular status (full-time and part-time) with at least one year of continuous service with the Chapter and six months in his/her current position.
2. Be recommended for merit pay by the immediate supervisor and approved by the Chapter Manager.
3. Have an overall performance rating of significantly exceeds standards or outstanding.
4. Must not have received a step increase or bonus for the same rating period.



Condition: For the review period, the Chapter paid the former Chapter Manager and former Administrative Assistant bonuses totaling \$3,358. However, the Chapter Manager was ineligible to receive a bonus since she was not employed with the Chapter for at least one year. At the time she received a bonus, she was employed with the Chapter for only six months. Lastly, there was no budget approving the bonuses for both staff.

Effect: In light of the ineligible staff and lack of budgets, the bonuses totaling \$3,358 paid to former Chapter staff were deemed unauthorized and questionable.

Cause: The Chapter President did not recall the staff receiving bonuses but records show the President and the former Vice President approved the bonuses without first verifying staff met all criteria for receiving bonus payments and had an approved budget in place.

- Recommendations:
1. The Chapter Manager and officials should adhere to applicable personnel policies when considering staff bonus in the future.
  2. The Chapter Manager and officials should confirm bonus payments are approved through a budget prior to approving such payments.

**Finding IV: The Chapter incorrectly paid out accrued annual leave hours to active employees.**

Criteria: FMS Personnel Policies and Procedures, Section X.B.1.e., states at the end of each leave year, all hours in excess of 320 hours shall be forfeited. Forfeited hours shall not be paid. Section X.B.1.g. states upon separation from employment, an employee shall be paid for all accrued annual leave hours. Payment will be included in the final paycheck subject to deductions for any indebtedness owed to the Navajo Nation. This is subject to availability of Kinlichee Chapter funds.

Condition: For the review period, the Chapter paid out annual leave hours as follows:

Position	Leave Hours	Amount Paid
Former Chapter Manager	40 hours	\$817
Former Administrative Assistant	40 hours	\$729
Former Chapter Manager	40 hours	\$817
Former Administrative Assistant	40 hours	\$729
<b>Total:</b>		<b>\$3,092</b>

Both employees were still actively employed with the Chapter at the time of the payouts. Although, there were justification memos that acknowledged and approved the payouts by the Chapter officials found on file, these payments were made contrary to personnel policies.

**Effect:** Unauthorized annual leave payouts totaling \$3,092 were paid to ineligible employees.

**Cause:** Chapter Officials who did not fully understand personnel policies and procedures incorrectly approved payout of annual leave hours to employees who had yet to separate from the Chapter. Former employees likely used this lack of understanding to circumvent policies and procedures to receive their payments.

**Recommendations:**

1. The Chapter staff and officials should obtain training from the Administrative Service Center on FMS Leave Administration policies and procedures.
2. The Chapter Manager and officials should pay out accrued annual leave only in accordance with established policies and procedures.
3. The Chapter Manager and officials should review payment documents against FMS policies and procedures to verify compliance prior to approving payments.

**Finding V: Contrary to policy, exempt employees were paid overtime.**

**Criteria:** FMS Personnel Policies and Procedures, Section VIII.B.1., states exempt positions include: managerial, professional, and administrative positions. Employees assigned to exempt positions are not eligible for overtime compensation.

**Condition:** For the review period, the Chapter paid the former Chapter Manager \$338 and former Administrative Assistant \$275 in overtime although they were exempt employees. The current Chapter Manager and Acting Administrative Assistant were also paid \$225 each in overtime in FY2022. All were paid at a rate of \$25 per hour but the Chapter Manager and officials could not clarify how this payrate was determined.

In the justification memo for the former Chapter Manager and former Administrative Assistant, it clearly states that they are exempt employees who do not qualify for overtime but the payments were approved by the Chapter officials nonetheless. A total of \$1,063 was paid to ineligible employees as overtime.

**Effect:** Employees were compensated for wages they were not entitled to receive, resulting in misuse of chapter funds.

**Cause:**

- Chapter officials who approved the overtime payments were not familiar with FMS Overtime policies and procedures.
- For the FY2022 overtime payments, the Chapter Manager said she did not realize they were exempt from overtime payments at the time but are now aware of the policy and no longer receive overtime.



- Recommendations:
1. The Chapter Manager and officials should review personnel policies to identify exempt and non-exempt employees prior to considering overtime payments.
  2. The Chapter officials should review documents to verify overtime payments are not paid to exempt employees.

**Finding VI: Required documentation to support special duty paid to employees were not on file.**

Criteria: Chapter Temporary Guidelines, Section VII.D.1.a-e, requires recipients to meet the following criteria:

1. The Chapter Manager must express, by written and signed memorandum, that a Chapter employee is an essential worker. Non-essential Chapter staff are ineligible for special duty pay.
2. Exempt status employees may be compensated in a lump sum payment.
3. Non-exempt status employees may be compensated at a rate of 0.5 which, if approved, would be in addition to the hourly rate for actual work hours for being on call. Eligible hours cannot exceed the total number of hours worked.
4. A special duty over time (OT) form shall be attached to the Chapter timesheet.
5. If special duty pay is approved, subject to funds availability, the special duty pay will be processed as back pay. In other words, regular pay will be paid as normal. Special duty pay will need to be approved prior to the Chapter issuing a separate check for special duty pay. It follows that even if special duty pay is approved, a check cannot be issued if there is insufficient funding.

Condition: For the review period, the Chapter paid special duty pay as follows:

Position	Amount Paid:
Former temporary employee	\$1,209
Former temporary employee	\$1,288
Former Administrative Assistant	\$2,545
Former Chapter Manager	\$2,963
<b>Total:</b>	<b>\$8,005</b>

The payments were not supported with a memo to declare staff essential employees, and the applicable special duty OT forms. Further, some timesheets were missing; the staff claimed 1,069 hours but available timesheets only supported 702 hours.

Effect: There is a risk the Chapter paid \$3,337 of special duty pay for hours not actually worked.

Cause: The Chapter officials did not verify that staff had all required documents to demonstrate eligibility for receiving Special Duty pay prior to authorizing payments.

Recommendations: 1. The Chapter Manager and officials should verify required documents are submitted prior to authorizing payments.

**Finding VII: Payroll taxes applicable to employee bonuses, special duty pay, and annual leave payouts were not withheld and remitted to the IRS.**

Criteria: Title 26, Chapter 21, United States Code, Section 3101 and 3102, imposes on the income of every individual, a tax equal to 6.2 percent and requires employers to collect these taxes by deducting the amount from the wages when paid. Employers are also required to issue W-2 forms to their employees showing wages paid and taxes withheld. FMS Fiscal Policies and Procedures, Section VII.H.2.j and Internal Revenue Service Regulations, Publication 15 (Circular E), requires payroll taxes collected during a month to be deposited to the bank by the 15<sup>th</sup> day of the following month. Noncompliance could result in penalties.

Condition: For the review period, the Chapter paid employees the following:

<b>Payment Type</b>	<b>Recipients</b>	<b>Total Amount</b>
Employee Bonus	a) Former Chapter Manager b) Former Administrative Assistant	\$3,358
Special Duty Pay	a) Former Chapter Manager b) Former Administrative Assistant c) Former Office Assistant d) Former Custodian/Maintenance	\$8,005
Annual leave pay	a) Former Chapter Manager b) Former Administrative Assistant	\$3,092
<b>TOTAL:</b>		<b>\$14,455</b>

However, the Chapter did not withhold and remit to IRS payroll taxes totaling \$2,089 from these employee wage-related payments. Additionally, there were no W-2 forms to verify these sources of income were reported for the employees by the Chapter.

Effect: The Chapter has unpaid payroll taxes of approximately \$2,089 and will likely be assessed penalties and fees for late payments. Chapter funds intended for direct services will likely have to be used to pay for these avoidable costs. In addition, there is a risk the Chapter underreported wages and payroll taxes on the employees' W-2 forms resulting in an increased tax liability for the employees.

Cause: 

- The Chapter staff did not process these checks from its payroll module which would have allowed automatic tax deductions and

remittance. Rather, the Chapter processed the payments as operating disbursements from its accounting module.

- The Chapter officials were unaware that these payments required tax withholdings and remittance to IRS before they signed the checks.

- Recommendations:
1. The Chapter Manager and officials should request for training from the Administrative Service Center on taxable sources of income and verifying all payroll taxes are accurately remitted and reported to the IRS.
  2. The Chapter Manager should require the Administrative Assistant to process all payroll related payments through the payroll module. The Chapter Manager should also periodically review applicable accounting system reports to ensure all payroll expenditures are processed from the payroll module.
  3. The Chapter officials should verify payroll taxes are properly withheld from all employee income related payments.

**Finding VIII: Wage adjustments cannot be justified with proper documentation.**

Criteria: FMS Fiscal Policies and Procedures, Section VII.H.2, requires Personnel Action Forms to be on file and states the Administrative Assistant will record the employee's Personnel Action Form information on to the employee's earning subsidiary ledger for payroll purposes which will contain the authorized pay rate. The Chapter Manager is responsible to review payroll prior to approval.

Condition: There were 13 hourly pay rate changes identified within our 36-month review period and of this number, seven of these changes were not supported with an approved Personnel Action Form to justify changes to the hourly pay rate. This practice is contrary to policies and procedures. Subsequent to our audit period in FY2022, there were two more pay rate changes that also lacked approved personnel action forms.

Effect: Without proper documentation authorizing pay rate changes, the Chapter paid \$10,482 in unauthorized wages to the employees (\$6,382 during the 36-month review period and \$4,100 during FY2022).

Cause: Supporting documentation are not properly reviewed prior to fund disbursements. As a result, the former and current Chapter Manager, including the Chapter officials, did not realize there were no Personnel Action Forms that authorized the pay rate increases.

- Recommendations:
1. The Chapter Manager and officials should define an internal process for pay rate changes and approval including a checklist for staff to use to verify required documents are processed to justify pay rate changes.



2. The Chapter Manager should verify updated and approved Personnel Action Forms are on file whenever there is a change in hourly pay rates.
3. The Administrative Assistant should file updated Personnel Action Forms in the personnel files in a timely manner.

**Finding IX: Employee leave reports generated by the Chapter’s payroll system are unreliable.**

Criteria: FMS Personnel Policies and Procedures, Section X, allows regular status employees to accrue annual and sick leave hours. Sick leave is accrued at 4 hours per pay period while annual leave is accrued at the following rates:

Annual Leave		
Years of Service	Non-Exempt Hours	Exempt Hours
Less than 3 years	4	6
3 years to 12 years	6	8
More than 12 years	8	10

Leave hours taken should be charged against hours earned.

Condition: The Chapter uses the MIP payroll module to track accrued and used leave hours for chapter employees. Leave hour accruals were accurately recorded but hours used by employees were not. A sample of 14 pay periods for four employees were examined and of this number, seven pay periods had employee leave reports with discrepancies. The reports did not properly record leave hours used by employees resulting in questionable accrued leave balances.

Effect: Overall, accrued leave hours for staff, as reported by the Chapter’s MIP system, are unreliable. This poses risks such as: a) staff could be using leave hours they do not actually have, or b) staff could be absent from work but not use accrued leave and subsequently request for a payout of these accrued hours leading to misuse of chapter funds.

Cause: The payroll voucher packets do not include the employee leave reports as part of the supporting documentation. As a result, the Chapter officials cannot verify staff leave hours are properly accounted for by the Chapter administration.

Recommendations: 

1. The Chapter Manager should review the MIP leave reports to verify that the Administrative Assistant records leave hours used by employees in the MIP system. The leave reports should be reconciled to the approved timesheets each pay period.
2. The Chapter Manager should include the leave reports as part of the payroll vouchers to allow the Chapter officials to review when signing payroll checks.



**Finding X: The Chapter did not verify employees met minimum job qualifications prior to assigning them into acting status positions.**

**Criteria:** FMS Personnel Policies and Procedures, Section XII.E., states an acting status assignment involves assigning a regular status employee to a supervisory position during the extended absence of an incumbent or position vacancy and must meet the following:

1. Employee must meet the requirements of the position.
2. Must be in writing and submitted to the Chapter Manager for approval and should include: a) the nature, time period, and expected results of the assignment, b) assigned duties and responsibilities, c) reporting relationships and signatures of the supervisors and employee, d) the appropriate salary adjustment for the period of assignment; and e) an updated application and resume of the employee.

**Condition:** During the audit period, there was no Chapter Manager from February 2019 to May 2019 and again from January 2021 to June 2021. In these instances, the Administrative Assistant was assigned as the acting Chapter Manager. However, this assignment was done contrary to personnel policy. The Administrative Assistant did not submit proper paperwork such as an updated application and resume to facilitate a proper evaluation of qualifications.

During fieldwork, the current Chapter Manager acknowledged the Office Assistant was assigned as the acting Administrative Assistant in FY2022 also without an evaluation of qualifications because the necessary paperwork was not submitted.

**Effect:** There is a risk that unqualified individuals were allowed to hold administrative positions to manage the Chapter.

**Cause:**

- Since the former/current Chapter Manager and Chapter officials are not familiar with Personnel Policies and Procedures for acting positions, they arbitrarily assigned chapter staff without ensuring their qualifications and competency.
- Chapter officials also stated the former Chapter Manager recommended the former Administrative Assistant be the acting Chapter Manager and they relied on this recommendation without verifying policies.

**Recommendations:**

1. The Chapter Manager and officials should obtain refresher training from the Administrative Service Center on Personnel Policies and Procedures.
2. The Chapter Manager and officials should collaborate with the Administrative Service Center when considering staff for acting

positions; such collaboration will help ensure compliance with policies and procedures.

**Finding XI: The Chapter cannot account for all property and equipment.**

**Criteria:** FMS Property Policies and Procedures, Section IV, states that staff and officials are responsible for ensuring accurate inventory control and safeguarding of all Chapter property. In the event of loss, the Chapter should be prepared to show actions were taken to guard against loss, damage, and theft. Property should be kept on chapter premises except when otherwise approved by the Chapter Manager. Section VII, states the Chapter shall maintain a complete, detailed, and accurate identification of property at all times. All properties of the Chapter shall be identified, classified and recorded on the Physical Equipment Inventory form and be tagged with a Chapter property number.

**Condition:** The Chapter is not adequately accounting for property and equipment. The following are deficiencies noted in regards to property management:

1. Property inventory was incomplete. 44 property items listed on the Underwriter Exposure Summary report submitted to the Risk Management Department for insurance purposes were not listed on the inventory.
2. Property inventory did not account for several Chapter equipment such as buildings, tablets, a printer, squeeze chute, flatbed, water tank, garden tools, scanners, voice recorders, grill, chairs, and heaters.
3. A comparison of the property inventory and Underwriter Exposure Summary report revealed inconsistencies with the reported property values. The total value reported on the property inventory is \$125,687 and the Underwriter Exposure Summary report is \$189,069. Due to the inconsistency, these chapter records were deemed unreliable.
4. A sample review of 19 property items found 18 were not tagged with identification numbers.
5. For the three-year review period, there was no copy of the inventory submitted to the Risk Management Department on file.
6. There was no documentation of equipment such as laptops assigned to Chapter officials and staff or authorization to use such equipment off chapter premises. For example, the Chapter flatbed, squeeze chute and water tank were missing for an unknown period of time. However, the former Administrative Assistant acknowledged the items were at a former temporary employee's home and had the items returned to the Chapter as directed by the Chapter Manager.
7. There was missing property still listed on the property inventory; the missing items have not been addressed in accordance with policies.

**Effect:** Without a full and accurate accounting of all property and equipment, we cannot determine the true value of Chapter property. In addition, there is a risk that property may be under or over insured. Furthermore, in the event of property loss, the Chapter would be unable to identify missing items for insurance purposes.

**Cause:**

- There is no evidence that the former or current Chapter Manager properly monitored property activities handled by other administrative staff.
- Chapter officials do not periodically verify that staff adhere to policies in regards to property management.

**Recommendations:**

1. In the absence of an Administrative Assistant, the Chapter Manager should have temporary employees assist with the annual physical count of property to update the property inventory with pertinent and accurate information, and verify all property items have identification tags. The Chapter Manager and officials should periodically inspect property items to ensure they are on chapter premises, have identification tags, and are accounted for on the property inventory.
2. The Chapter Manager should reconcile the Underwriter Exposure Summary and property inventory prior to submitting to the Risk Management Department.
3. The Chapter Manager should require staff and officials to sign out for assigned property. The Chapter Manager should also monitor the use of these property items for chapter business.
4. The Chapter Manager should identify and document missing property in accordance with policies and procedures.

**Finding XII: The Chapter did not verify the eligibility of scholarship assistance recipients.**

**Criteria:** Chapter Scholarship Policies and Procedures, Section IV.A-D and F., states required documents for scholarship assistance includes the following:

1. Complete scholarship application.
2. Verified enrollment by Chapter staff by calling the college/university.
3. Transcript-from College or High School with the date of graduation or GED test scores certified by the granting agency with a grade average of 2.0 "C" from the most recent semester.
4. Letter of admission from an accredited college or university.
5. Evidence of Navajo Nation voter registration either by receipt or voter registration list from the Election Office. If the applicant is under the age of 18 years at least one parent should be registered with the community.

Condition: There were 123 total scholarship disbursements identified and of this number, 30 disbursements totaling \$7,350 were examined to verify compliance with policies and procedures. The following deficiencies were identified:

Type of Exception	No. of Exceptions
No application on file.	6 of 30 (20%)
No voter registration on file.	8 of 30 (27%)
No transcript on file or the student did not meet GPA requirement of 2.0 or better.	19 of 30 (63%)
No acceptance letter on file.	19 of 30 (63%)
No proof of enrollment on file.	9 of 30 (30%)

Effect: The Chapter awarded \$5,000 scholarship assistance to 20 students who did not meet scholarship assistance eligibility criteria. This creates an unfair awarding process.

Cause: The Chapter Manager and officials did not verify that students submitted all required documents to meet eligibility criteria prior to approving assistance.

- Recommendations:
1. The Administrative Assistant should use a check list to ensure all required documents are provided by the applicant and the Chapter Manager should verify the completed check list against policies before approving assistance.
  2. The Chapter officials should verify the Chapter Manager used the check list to confirm all required documents are submitted by applicants.

**Finding XIII: The Chapter did not verify the eligibility of housing assistance recipients.**

Criteria: Chapter Housing Discretionary Policies and Procedures, Section III.A, requires community members that need housing repairs/renovations to submit a housing application to the chapter administration. Section IV requires the applicant to be a registered voter with the Chapter for six months and have proof of land ownership by land title or approved home site lease. Section V states the Chapter staff shall utilize a ranking system to ensure priority for eligibility and serving those with greatest needs first.

Condition: There were 47 total housing disbursements and of this number, 20 recipients awarded a total of \$32,545 were examined to verify compliance with policies and procedures. The following deficiencies were identified:



Type of Exception	No. of Exceptions
No application on file	10 of 20 (50%)
No voter registration.	13 of 20 (65%)
No homesite lease on file.	16 of 20 (80%)
No ranking system was used to evaluate applicants.	10 of 20 (50%)
No approval/disapproval form.	13 of 20 (65%)
Recipient was not awarded within allowable amount.	1 of 20 (5%)

Overall, approximately 19 of 20 recipients did not comply with one or more requirements for housing assistance documentation.

Effect: The Chapter expended \$30,659 for housing assistance to 19 recipients without assurance all recipients were eligible.

Cause:

- Although there is a checklist for required documentation, the Chapter administration including former employees did not consistently use the checklist as intended.
- In addition, the Chapter administration including former employees did not properly review the application and supporting documents as submitted by the applicants.
- The established checklist does not require signatures so it is unclear who completes and reviews the form.

Recommendations:

1. The Chapter Manager should monitor the Administrative Assistant's work to make sure the checklist is consistently used before approving assistance.
2. The Chapter Manager should add signature lines to the checklist for the preparer and reviewer.
3. The Chapter Manager should verify the award amount is authorized per the approved budget.
4. The Chapter officials should verify the Chapter administration is utilizing the checklist correctly and verify the award amount is authorized per the approved budget prior to signing award checks.

**Finding XIV: The Chapter cannot demonstrate they followed the hiring process.**

Criteria: FMS Personnel Policies and Procedures, Section IV.A., states the Chapter's employment process, which is carried out by the Chapter Manager, in consultation and with the approval of the Chapter officials, will ensure competitive practices in the recruitment, selection, and placement of qualified applicants based on the applicant's knowledge, skills, abilities and overall qualifications for employment with the Kinlicee Chapter. This includes compliance with the following:

1. Advertising positions for 10 days (Section IV.C)

2. Accepting signed applications (Section IV.D)
3. Assessment of applicants (Section IV.H)
4. Interviewing applicants (Section IV.E).
5. Offer of employment by the Chapter Manager (Section IV.J.)
6. Avoiding conflict of interest in the hiring of relatives. (Section III.E)

**Condition:** For the review period, there were 31 job positions identified and nine were selected to verify the Chapter followed employee hiring policies to fill these positions. However, there was no documentation of the Chapter's hiring practices. Without documentation, how the Chapter filled the various job positions could not be determined.

**Effect:** The lack of compliance poses various risks. The hiring process could be deemed unfair, unqualified individuals could be hired, there could be conflicts of interest because family members were hired, and chapter funds could be used contrary to its intended purposes.

**Cause:** Based on the explanation from the officials, job positions were advertised, interviews were conducted and documented before job offers were made and they recused themselves whenever a relative applied for a position. However, these claims could not be substantiated with proper supporting documentation.

- Recommendations:**
1. The Chapter staff and officials should comply with personnel policies and procedures when hiring employees and document compliance with the policies.
  2. The Chapter staff should file job advertisements, list of interview panel, documented interview results, and job offers/denials.

## **CONCLUSION**

During the audit period, control discrepancies were identified within key Chapter processes. Lack of controls results in undeposited cash receipts of \$3,287. Without a perpetual inventory for resale items, the Chapter cannot account for hay worth \$41,410. Unauthorized bonuses were paid to ineligible Chapter staff. The Chapter incorrectly paid out accrued annual leave hours to active employees. Contrary to policy, exempt employees were paid overtime. Required documentation to support special duty paid to employees were not filed. Payroll taxes applicable to employee bonuses, special duty pay, and annual leave payouts were not withheld and remitted to the IRS. Wage adjustments cannot be justified with proper documentation. Employee leave reports generated by the Chapter's payroll system are unreliable. The Chapter did not verify employees met minimum job qualification prior to assigning them into acting status positions. The Chapter cannot account for all property and equipment. The Chapter did not verify the eligibility of scholarship assistance recipients. The Chapter did not verify the eligibility of housing assistance recipients. The Chapter cannot demonstrate they followed the hiring process.

**BACKGROUND**

The Navajo Nation Office of the Auditor General has conducted a Special Review of the Kin Dah Lichii Chapter for the 36-month period of October 1, 2018 to September 30, 2021.

The Kin Dah Lichii Chapter is a political subdivision of the Navajo Nation and is considered a general-purpose local government for reporting purposes. The Kin Dah Lichii Chapter is located within the Fort Defiance 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).

During our three-year review period, the Chapter had consistent turnover in the Chapter administration positions. The following changes were noted:

Chapter Manager		Chapter Administrative Assistant	
1 <sup>st</sup> Manager	Employed: July 2017-February 2019	1 <sup>st</sup> Administrative Assistant	Employed: July 2018-February 2022
2 <sup>nd</sup> Manager	Employed: June 2019-December 2020	2 <sup>nd</sup> Administrative Assistant	Employed: May 2022-July 2022
3 <sup>rd</sup> Manager	Employed: July 2021 to current	Rehired 2 <sup>nd</sup> Administrative Assistant	Employed: November 2022 - current

The Kin Dah Lichii 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 Kin Dah Lichii Chapter are enumerated in Title 26, Local Governance Act of the Navajo Nation Code. The Kin Dah Lichii Chapter is an LGA certified Chapter since 2010.

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. Kin Dah Lichii Chapter’s operating budget for the review period was approximately \$2,190,201.

**Objective, Scope, and Methodology**

The Office of the Auditor General conducted a Special Review Audit of the Kin Dah Lichii Chapter pursuant to the authority vested in the Office of the Auditor General by Title 12 Navajo Nation Code, Chapter 1, Sections 1 to 10.

The following sub-objectives were established to address the main objective for this audit:

Determine if controls are functioning as designed to ensure:

1. All cash receipts are posted to the accounting system and deposited to the bank timely.
2. Hay resale activities are recorded to inventory records to account for resale items.
3. All Chapter property/equipment is accounted for and located on Chapter premises.
4. Financial assistance (scholarship/housing) is awarded in a fair and equitable manner.
5. The Chapter is fair and equitable in hiring its employees.
6. Bonuses, special duty pay, leave, salary changes and overtime payments are supported with required documentation and approved in accordance with personnel policies and procedures.

The audit covers activities for the 36-month period of October 1, 2018 to September 30, 2021.

In meeting the audit objectives, we interviewed the Chapter administration and Officials, observed Chapter operations, and examined available records. More specifically, we tested samples of expenditures, cash receipts, resale and property for internal controls and compliance requirements by using a non-statistical, judgmental method.

**Government Auditing Standards**

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The Office of the Auditor General expresses its appreciation to the Kin Dah Lichii Chapter administration and Officials for their cooperation and assistance throughout the audit.



# **CLIENT RESPONSE**

## KIN DAH LICHII" CHAPTER

Mr. Larry Curtis  
PRESIDENT

Mr. Alfred James  
VICE PRESIDENT

Mr. Mike Tsosie  
SECRETARY/TREASURER

Minifred Lilly  
Office Assistant



Mr. Vince R. James  
COUNCIL DELEGATE

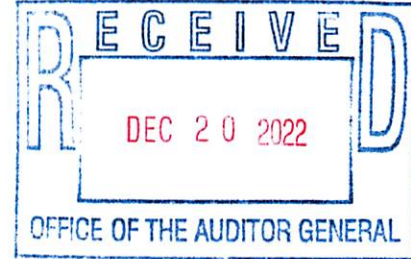
Mr. Edward David  
GRAZING OFFICIAL

Maybelle Kelewood  
CHAPTER MANAGER

Gloria Becenti  
Administrative Assistant

Dec. 20, 2022

Helen Brown, CFBE, Principal Auditor  
Delegated Auditor General  
Navajo Nation Office of Auditor General  
PO Box 708  
Window Rock, AZ 86515




Dear Ms. Brown,

We have received and reviewed the draft copy of the special audit report for the Kin Dah Lichii Chapter, on December 16, 2022. The Kin Dah Lichii Chapter Officials and staff are in consensus to accept the report on the audit finding and will pursue with the corrective action plan. I strongly believe that the Kin Dah Lichii Administration has implemented various recommendations to reflect the corrective action plans.

If you should have any questions, please feel to contact me at [kinlichee@navajochapters.org](mailto:kinlichee@navajochapters.org).

Sincerely,

  
Larry Curtis Sr., Chapter President

cc: Vince James, Council Delegate  
Eunice Begay, Senior Programs & Project Specialist  
Alfred James, Chapter Vice-President  
Sonlatsa Jim-Martin, Department Manager II  
Kin Dah Lichee Chapter Office files  
Mike Tsosie, Chapter Secretary/Treasurer