

OFFICE OF THE AUDITOR GENERAL

The Navajo Nation

Internal Audit of the Tselani-Cottonwood Chapter

**Report No. 23-02
December 2022**

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



December 30, 2022

Thomas B. Gorman, President
TSELANI-COTTONWOOD CHAPTER
P.O. Box 1139
Chinle, AZ 86503

Dear Mr. Gorman:

The Office of the Auditor General, in conjunction with Heinfeld, Meech & Co., P.C., herewith transmits Audit Report No. 23-02, an Internal Audit of the Tselani-Cottonwood 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 March 31, 2022, 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: Capital asset values reported in the Balance Sheet are inaccurate and assets are not depreciated.
- Finding II: The Chapter's property inventory is incomplete.
- Finding III: Cash received for various purposes was recorded to an inappropriate revenue code.

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,



Helen Brown, CFE, Principal Auditor
Delegated Auditor General

xc: Nelson Charley, Sr., Vice President
Elliot Bryant, Secretary/Treasurer
Charlene Wallace, Community Services Coordinator
Kee Allen Begay, Jr., Council Delegate
TSELANI-COTTONWOOD CHAPTER
Sonlatsa Jim-Martin, Department Manager II
Edgerton Gene, Senior Programs and Projects Specialist
ADMINISTRATIVE SERVICE CENTER/DCD
Sara Kirk, CPA, CFE, Partner
HEINFELD, MEECH & CO P.C.
Chrono

Office of the Auditor General - The Navajo Nation
Tselani-Cottonwood Chapter

The internal audit of Tselani-Cottonwood Chapter for the 12-month period ended March 31, 2022 was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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

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

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

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

Sincerely,

Heinfeld Meech & Co. PC

Heinfeld, Meech & Co., P.C.
Phoenix, Arizona
November 30, 2022

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Findings and Recommendations

Finding I: Capital asset values reported in the Balance Sheet are inaccurate and assets are not depreciated.

Criteria

The Fiscal Policies and Procedures section VII F1., states it shall be the policy of the Chapter that accurate and reliable records be maintained on all capital assets purchased or acquired by lease or lease purchases. Capital assets are defined as tangible property having a value of more than \$500 and an estimated useful life of greater than one year. Further, expected lifetime and depreciation records shall be maintained. Lastly, F2f indicates the recording and reporting of the Chapter's capital assets into the accounting records and financial statements will be the responsibility of the Accounts Maintenance Specialist (AMS).

Condition

Assets are not being depreciated in the MIP system.

Capital asset balances reported in the Balance Sheet as of March 31, 2022 do not agree to the balances reported in the most recent Chapter property inventory as follows:

Description	Account Code	MIP Amount at 3/31/2022	Property Inventory Amount	Variance
Office Equipment	1311	\$ 3,367.00	\$ 34,128.12	\$ (25,427.86)
Other Equipment	1313	\$ 5,333.26		
Heavy Equipment	1312	\$ 402,406.45	\$ 349,306.45	\$ 53,100.00
Fine Arts		\$ -	\$ 5,000.00	\$ (5,000.00)
Vehicle	1315	\$ 2,000.00	\$ 25,000.00	\$ (23,000.00)
Buildings	1318	\$ 877,475.00	\$ 1,352,699.00	\$ (475,224.00)
TOTAL		\$ 1,290,581.71	\$ 1,766,133.57	\$ (475,551.86)

Ten expenditures totaling \$31,875 coded to capital expenditures in the general ledger were reviewed during the audit and the following was noted:

- Three expenditures totaling \$1,813 were related to a windmill project, which was not included on the listing as infrastructure or construction in progress.
- Two expenditures totaling \$11,376 were related to a powerline extension project, which were not included on the listing as infrastructure or construction in progress.
- One expenditure in the amount of \$687 was for gravel for a road repair, which should not be coded as a capital expenditure, but rather should be a repair.

Effect

The Chapter is understating the value of assets and understating annual depreciation expense and accumulated depreciation. Further, Chapter property could be uninsured or underinsured.

Cause

The Community Services Coordinator (CSC) identified the need for an appraisal to determine the appropriate amounts to be reported for buildings and larger dollar infrastructure assets. The hiring of an appraiser to provide these services was brought to the Chapter for approval, however the community did not want to move forward, as the recommended vendor was not a Navajo vendor.

Recommendation

1. The Accounts Maintenance Specialist and Community Services Coordinator should obtain training from the Administrative Service Center (ASC) in the areas of property control, assets reporting and depreciation.
2. The Accounts Maintenance Specialist and Community Services Coordinator should identify and properly value all assets requiring capitalization for entry into MIP after an appraisal is obtained.
3. The Accounts Maintenance Specialist and Community Services Coordinator should reconcile the results of the appraisal to MIP and the property inventory and update the capital asset amounts in MIP.
4. The Accounts Maintenance Specialist and Community Services Coordinator should calculate depreciation expense on assets for proper Balance Sheet reporting.

Finding II: The Chapter's property inventory is incomplete.

Criteria

The Fiscal Policies and Procedures section VII F1., states capital asset records shall include a description of the asset, identification numbers, cost of the asset, date acquired, location, and custodial responsibility.

Condition

The property inventory is missing required information. The date acquired and location of the assets were not included. Further, for four equipment items over \$500, an identification number (tag number) was not included.

Effect

In the event of property loss, the Chapter may not be able to track and identify items for insurance purposes.

Cause

There are currently several versions of the Chapter's property listings being reconciled with each other and as a result, no one listing is complete and accurate. The Community Services Coordinator is awaiting the appraisal to be able to finalize this process.

Recommendation

1. The Accounts Maintenance Specialist should tag each property item with a sequentially numbered property control tag and the property control tag numbers should be added to the property listing for each asset. Further, acquisition dates and more specific locations (rooms) should be added to the listing.
2. The Community Services Coordinator should review the property inventory to verify all required information is included for each Chapter asset in accordance with policies and procedures.

Finding III: Cash received for various purposes was recorded to an inappropriate revenue code.

Criteria

The Fiscal Policies and Procedures section V A2., states the Chapter shall have a records system capable of identifying the source and use of funds. Further, as noted in V D3., the Chapter’s accounting records provide the documentary support for account balances and must be properly maintained to provide fiscal accountability for the Chapter. Lastly, generally accepted accounting principles (GAAP) requires the refund of an expenditure incurred in the current year to be recorded against the related expenditure account code and the refund of an expenditure incurred in the prior year to be recorded as a revenue.

Condition

A sample of 20 locally collected cash receipts totaling \$3,732 were reviewed. Seven of the 20 cash receipts totaling \$3,153 were recorded in account code 4504, unidentified revenue, which is not an appropriate revenue account. Further, the vendor refund was for an expenditure incurred in the current fiscal year, however, was not recorded as a reduction to the related expenditure account.

"Unidentified Revenue" Description	Amount
Burial Contribution	\$ 20.00
Sale of Property	\$ 2,175.00
Sale of Property	\$ 901.00
Overpayments related to exact change payment requirement	\$ 14.80
Vendor Refund	\$ 1.95
Funeral Services	\$ 20.00
Funeral Services	\$ 20.00
TOTAL	\$ 3,152.75

Effect

When the financial statements are not sufficiently detailed, important information may not be communicated to Chapter stakeholders. This could prevent the community from making informed financial decisions.

Cause

The Community Services Coordinator indicated that the unidentified revenue account code is utilized when another revenue account code cannot be identified within the Chapter’s existing Chart of Accounts.

Recommendation

1. The Community Services Coordinator should no longer utilize the unidentified revenue code to record identified Chapter revenues. Burial Contributions and Funeral Services monies should be recorded to a donations account code (4305).
2. The Community Services Coordinator should work with the ASC to add new revenue codes or modify existing revenue codes within the Chart of Accounts, including an account code for proceeds from the sale of property.
3. The Community Services Coordinator should record refunds of expenditures incurred in a prior year to miscellaneous revenue (4503) if a specific account code is not established. Refunds of expenditures incurred in the current year should be recorded as an offset to the expenditure code the original expenditure was recorded to.

Appendix

Background

The Navajo Nation Office of the Auditor General engaged Heinfeld, Meech, & Co. P.C. to perform an internal audit of the Tselani-Cottonwood Chapter for the 12-month period ended March 31, 2022.

Tselani-Cottonwood Chapter is a political subdivision of the Navajo Nation and is considered a general purpose local government for reporting purposes. The Tselani-Cottonwood Chapter is located within the Chinle Agency of the Navajo Nation.

The Tselani-Cottonwood 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 Tselani-Cottonwood Chapter are enumerated in Title 26, Local Governance Act (LGA) of the Navajo Nation Code.

The local chapter government is managed by the Community Services Coordinator (CSC) with administrative support provided by an Accounts Maintenance Specialist (AMS). Oversight is provided by the elected chapter officials comprising of the President, Vice-President and Secretary/Treasurer. Additional oversight is provided by the Navajo Nation Division of Community Development/Administrative Service Centers (ASC).

The majority of the Chapter's resources are provided through appropriations from the Navajo Nation central government. Other revenue is generated from miscellaneous user charges assessed by the Chapter for services and/or goods provided to its community members. The Tselani-Cottonwood Chapter's fiscal year 2021 total budget was \$1,054,591 and the fiscal year 2022 total budget was \$1,058,436 which includes carryover funds from the prior fiscal year.

Objective

The objective of the internal audit 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:

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

Audit Methodology

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

Client Response

Thomas Gorman, President

Nelson Charley, Sr, Vice President

Elliot Bryant, Sec./Tres.

Kee Allen Begay, Jr., Council Delegate

Steven Tsosie, Grazing Official



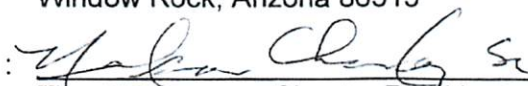
Charlene Wallace, Coordinator

Shalena Tsosie, Account Maintenance Specialist

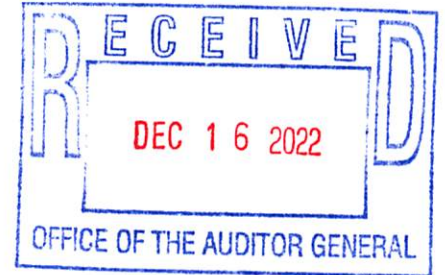
Lemuel George, Maintenance/Operator

DATE : November 30, 2022

TO : Helen Brown, CFE, Principal Auditor
Navajo Nation Office of the Auditor General
PO BOX 708
Window Rock, Arizona 86515

FROM : 
Thomas Gorman, Chapter President
Nelson Charley, Sr., Vice President
Elliot Bryant, Secretary/Treasurer
TSELANI-COTTONWOOD CHAPTER

RE : Heinfeld Meech & Co. P.C., Draft Report



The Tselani-Cottonwood Chapter has received the Internal Audit Draft Report for a 12-Month Period Ended March 31, 2022 completed by Heinfeld Meech & Co. P.C.

We agree to the audit findings and will begin the process of Corrective Action Plan based on the recommendations made by your office. Should you have any questions you may call the Chapter at (928) 725-3765. Thank you

File:

Dr. Pearl Yellowman, Division Director
Sonlatsa Jim-Martin, Department Manager II
NAVAJO NATION DIVISION OF COMMUNITY DEVELOPMENT
Edgerton Gene, Senior Program & Project Specialist
Robert Jumbo, Administrative Service Officer
CHINLE ADMINISTRATIVE SERVICE CENTER
Charlene Wallace, Chapter Coordinator
Shalena Tsosie, Account Maintenance Specialist
TSELANI-COTTONWOOD CHAPTER