



OFFICE OF THE AUDITOR GENERAL

The Navajo Nation

Local Governance Act (LGA) Certification Review of the Crownpoint Chapter

**Report No. 23-03
December 2022**

**Performed by:
Karen Briscoe, Principal Auditor**





December 30, 2022

Rita M. Capitan, President
CROWNPOINT CHAPTER
P.O. Box 336
Crownpoint, NM 87313

Dear Ms. Capitan:

The Office of the Auditor General conducted a Local Governance Act (LGA) certification review of the Crownpoint Chapter's five-management system. The purpose of the review was to determine whether Crownpoint Chapter has met the objectives of a five-management system per LGA as defined by 26 N.N.C. A five-management system comprises of fiscal, procurement, personnel, property, and records management.

Background

26 N.N.C. §101 requires the Crownpoint Chapter management to adopt and operate under a five-management system. As such, the Chapter management in conjunction with the Chapter officials, is responsible for establishing and maintaining a five-management system that provides reasonable assurance for the following:

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

Scope, Objectives and Methodology

The LGA review covers activities for the six-month period January 1, 2022 to June 30, 2022. Our review included obtaining an understanding of the internal control policies and procedures established by the Chapter's five-management system, evaluating the design effectiveness of the internal control procedures, determining whether such procedures have been placed in operation, and any other procedures we consider necessary to form a conclusion on whether the Crownpoint Chapter has met the objectives of a five-management system. Specifically, we evaluated the Chapter's achievement of its five-management system objectives in the areas of financial reporting, safeguarding of assets and compliance with laws and regulations.

Review Results

Our review has determined that material weaknesses exist within the Crownpoint Chapter's five-management system. The attached exhibit summarizes the deficiencies deemed as material weaknesses. In the event material weaknesses are found with a five-management system, the

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Office of the Auditor General cannot issue a favorable recommendation for LGA certification until the deficiencies are reasonably resolved by the Chapter.

Conclusion

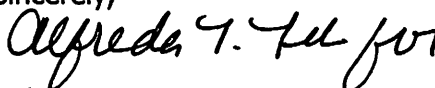
Although the Crownpoint Chapter has established the basic foundation for a five-management system, the implementation of this system is hampered by various internal control deficiencies. These deficiencies do not allow the Chapter to provide reasonable assurance for proper accountability and fiscal responsibility over Chapter operations and activities. Attached is a list of the deficiencies along with recommendations to resolve these deficiencies and improve Chapter operations.

The Office of the Auditor General recognizes the importance of this LGA certification initiative by the Crownpoint Chapter and would like to see the Chapter succeed with this important endeavor. Therefore, the Auditor General hereby grants the Crownpoint Chapter a six-month extension, from the date of this letter, to address the internal control deficiencies and request for another revisit by our office before a formal recommendation is made.

To help ensure the reported deficiencies are addressed, we recommend that the Administrative Service Center provide assistance to the Chapter by: 1) training the Chapter staff and officials on the five-management system, 2) providing technical assistance as needed to correct issues, and 3) completing routine assessments to evaluate the progress of the Chapter.

If you have questions, please contact our office at (928) 871-6303.

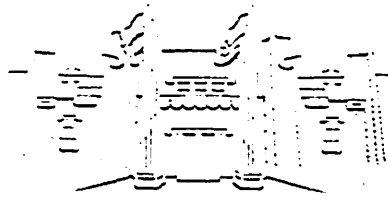
Sincerely,



Helen Brown, CFE
Delegated Auditor General

Attachment

xc: Leonard Perry, Vice President
Helen Murphy, Secretary/Treasurer
Aaron Edsitty, Community Services Coordinator
Mark Freeland, Council Delegate
CROWNPOINT CHAPTER
Sonlatsa Jim-Martin, Department Manager II
Casey Begay, Senior Programs and Projects Specialist
ADMINISTRATIVE SERVICE CENTER/DCD
Chrono



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LGA Review Findings

Finding I: Professional services totaling \$32,359 were rendered without professional service agreements.

- Criteria:** FMS Procurement Policies and Procedures, Section VI.B, states that any professional services, including any service where the industry standard for that profession provides for professional licensure such as contractors, plumbers, electricians shall require a professional services agreement to be based on templates approved by the Navajo Nation Department of Justice (DOJ) in consultation with DOJ.
- Condition:** The Chapter hired a plumber and electrician for a bathroom addition project. Since there were no professional service agreements in hiring these professionals, the Chapter verbally agreed to pay the vendors 50% to start the project with 50% paid after services are completed. The electrician was paid \$4,452, and the plumber was paid \$27,907 which exceeded the original quotation of \$22,207.
- Effect:** Without a professional service agreement, the Chapter becomes exposed to various risks including potential liability for any disputes, lack of deliverables, or unnecessary cost overruns.
- Cause:** The Community Services Coordinator misunderstood that since the bathroom project was under \$50,000, there was no need for contracts in procuring professional services.
- Recommendations:**
1. The Community Services Coordinator should use the DOJ contract templates and review process to execute professional service contracts for all professional services.
 2. The Community Services Coordinator should ensure that there is a signed contract in place for all services before any work commences.

Finding II: Fixed assets reported in the balance sheet cannot be supported with documentation.

- Criteria:** FMS Fiscal Policies and Procedures Section, VII.F, states that accurate and reliable records be maintained on all Capital Asset purchases. The Administrative Assistant is responsible to record and report capital assets into the Chapter's accounting records. If there are no documents to show the cost of any Chapter Capital Asset, the value will be estimated by the Chapter Manager based on fair market value. Expected lifetime and depreciation records shall be maintained.
- Condition:** A sample of 10 fixed assets were examined against support documentation to verify if their reported values are reliable. Although the support documentation verified the purchase amount of the fixed assets, the depreciated values could not be substantiated.

LGA Review Findings

In addition, \$1,426,454 in total fixed assets was posted in the accounting system but the property inventory recorded a higher total fixed assets of \$1,506,608 resulting in a variance of \$80,154. The inconsistency was due to: a) 26 fixed assets from the property inventory were not entered into the accounting system and b) four fixed assets from the property inventory had values that were reduced from \$309,000 to zero without proper justification.

Effect: The total assets reported in the balance sheet is unreliable since the fixed assets were erroneously reported. Unreliable financial statements would not adequately represent the Chapter's financial position and hinder any related decision-making.

Cause:

1. The Community Services Coordinator misunderstood the property policies and did not record all fixed assets into the Chapter's MIP accounting system.
2. The assets were reduced to zero because they had fully depreciated but there were no documents to support the depreciation.

Recommendations:

1. The Chapter administration should maintain adequate support documentation for all fixed assets especially their values, including depreciation. The administration should use the documentation to enter all fixed asset items into the MIP accounting system.
2. The Community Services Coordinator should reconcile the inventory against the fixed asset summary ledger for accuracy on a quarterly basis.

Finding III: Two chapter funds have deficit balances totaling \$44,294.

Criteria: FMS Fiscal Policies and Procedures, Section VI, states that no expenditures shall exceed the budgeted amounts without prior approval by the Chapter voting members. In addition, Navajo Nation Department of Justice issued temporary guidelines for Chapters during the COVID-19 pandemic that states the Secretary/Treasurer and Community Services Coordinator shall verify funds availability. Unless there is guidance communicated to the Chapter in writing from Division of Community Development and/or Department of Justice, the Chapter must still follow their FMS.

Condition: The Chapter accounting system reported deficit balances for the following two funds:

1. 01-Chapter Activities Fund:	\$(21,282)
2. 17-Emergency Fund:	<u>\$(23,012)</u>
	Total: \$(44,294)

LGA Review Findings

The deficits occurred because the Chapter expended funds beyond the budget restrictions.

Effect: In order to balance its financial books, the Chapter will have to use other funds to cover the deficits. In doing so, other restricted funds would essentially subsidize the Chapter Activities and Emergency Fund activities without community approval.

Cause:

1. The revenues generated from the water and trash services are generally used to pay the corresponding utility bills but during the COVID-19 pandemic, the Chapter provided these services to the community without charge. The Chapter continued to pay the utility expenses although revenues had depleted.
2. The Chapter used emergency funds to assist the community during the COVID-19 pandemic. The Chapter was told that the Federal Emergency Management Agency (FEMA) would reimburse the Chapter for emergency related expenses so the Chapter expended more than its budget. However, to date, the Chapter has not received a FEMA reimbursement.

Recommendations:

1. The Community Services Coordinator should only authorize disbursements after verifying sufficient funds are available.
2. The Chapter officials should verify that funds availability was properly verified by the chapter administration prior to signing checks.
3. The Chapter administration and officials should not use the Chapter Activities and Emergency Funds until their fund deficits are addressed.

Finding IV: Transactions are not correctly posted in the accounting system.

Criteria: FMS Fiscal Policies and Procedures, Section V.D, states the Chapter's accounting records provide support for account balances and must be properly maintained to provide fiscal accountability for the Chapter. Section VII.B.1 states the Chapter chart of accounts shall be used to determine the appropriate accounts to which the disbursements will be charged. Section VI.A, states that no expenditure of Chapter funds shall be made without an approved budget.

Condition: In the review of the Chapter's accounting records, the following discrepancies were noted:

1. There was no approved budget for rental revenues totaling \$1,590.
2. The rental revenues were also erroneously posted as Navajo Nation revenue rather than building rental funds.
3. The Chapter's Sales Tax budget included \$6,390 for utilities however, in order to expend these funds, the Chapter passed a

LGA Review Findings

resolution to transfer the funds to the Land Claims Trust fund. This interfund transfer of restricted funds was unnecessary.

4. An insurance claim reimbursement check totaling \$5,961 was erroneously posted as revenue rather than posting it back to the fund it was paid from.
5. The purchase of a stove totaling \$1,715 was erroneously posted as a Chapter renovation expense rather than equipment expense.

Effect: Posting errors contribute to over/under reporting of expenses or revenues and can result in unreliable financial statements. In addition, spending funds without an approved budget is unauthorized expenditures of funds.

Cause:

1. The Community Services Coordinator did not realize there was no budget for rental revenues since budgets are not reconciled to the accounting system.
2. Since utility bills are normally paid from the Land Claims fund, the Community Services Coordinator incorrectly assumed other chapter funds budgeted for utilities such as the Sales Tax fund should be transferred to the Land Claims fund in order to expend the funds.

Recommendations:

1. The Community Services Coordinator should create a budget for all funds including revenues generated and obtain community approval prior to the expenditure of funds.
2. The Community Services Coordinator should not authorize interfund transfers of restricted funds. Rather, the Chapter administration should document the appropriate fund codes on the Fund Approval Form to identify the chapter funds that will be used to cover the utility expense.
3. The Community Services Coordinator should routinely review applicable MIP accounting reports to make sure the Accounts Maintenance Specialist is posting transactions in accordance with the chart of accounts.

Finding V: The Chapter does not fully comply with Procurement Policies and Procedures.

Criteria: FMS Procurement Policies and Procedures, Section VI, requires the Chapter staff and officials to request for goods and services on a requisition form. Section IV requires the Chapter to obtain price quotations.

Condition: For the review period, we examined 10 procurement files totaling \$13,105. The following deficiencies were noted:

1. All 10 files did not have a purchase requisition to support each purchase.
2. One disbursement had only one quotation.

LGA Review Findings

3. For two disbursements, there was no evidence that goods were inspected against the approved purchase order.

Effect: In the absence of procurement compliance, the Chapter cannot provide assurance it remains competitive to make sure goods/services are procured at the most economical prices and in the best interest of the Chapter, and only authorized purchases are processed for payment.

- Cause:**
1. The Chapter has yet to implement the purchase requisition form in their procurement process. Rather, the Chapter proceeds directly to acquiring goods/services and processing payments.
 2. Since the Chapter does not currently use purchase requisitions, the administration is inconsistent in obtaining the required number of quotes. Verbal follow-ups on quotations were not properly substantiated.
 3. The Chapter administration takes pictures of the goods received or uses the corresponding invoice to mark off items received but they were inconsistent in this practice.

- Recommendations:**
1. The Chapter administration should implement the purchase requisition form and document all quotes obtained on the form to demonstrate procurement compliance.
 2. The Community Services Coordinator should also implement a receiving report form to verify all goods/services approved per the purchase order were received.
 3. The Chapter officials should inspect all disbursement vouchers to make sure they include purchase requisitions and the required quotations before signing checks.

Finding VI: Incomplete financial statements are reported to community members.

Criteria: FMS Fiscal Policies and Procedures, Section V.D., states the primary objectives of the Chapter's accounting system is to provide reliable and consistent financial information on a timely basis, safeguard the Chapter's assets, and to provide reasonable assurance that the Chapter complies with all applicable laws and regulations. Section VII.L states the Community Services Coordinator shall prepare monthly financial statements and the Secretary/Treasurer shall present it to the community at a duly called Chapter meeting each month.

Condition: Although the Chapter administration generates financial statements each month, the balance sheet that reports on the Chapter's assets, liabilities and fund balance was incomplete. The balance sheets for the six-month review period omitted the Chapter's fixed assets which is contrary to applicable policies.

Effect: Financial statements with omissions do not provide a true financial picture of the Chapter and the actions of the Chapter administration

LGA Review Findings

could be construed as intentional deception and abuse of the public's trust.

Cause: The Community Services Coordinator stated the fixed assets were omitted so the administration and officials can avoid reporting the information at chapter meetings. He explained that the community erroneously interprets the fixed assets amount as available cash to spend by the Chapter. Therefore, they considered it easier to omit the information rather than educating the community on the complex financial information

Recommendations:

1. The Chapter administration and officials should work closely with the Administrative Service Center on how to best explain the financial information to the chapter community members.
2. The Community Services Coordinator should prepare financial statements with all pertinent information and assist the Secretary/Treasurer with presenting the information during chapter meetings.

Finding VII: Work hours for temporary employees were not clearly defined.

Criteria: FMS Personnel Policies and Procedures, Section V.E., requires personnel time records to be maintained for each employee to report the hours worked, hours absent, hours on approved leave, type of approved leave, and hours of unauthorized absence.

Condition: Temporary employees work part-time as indicated by the timesheets reviewed. The timesheets for each pay period showed less than 80 hours for the employees but these work hours were not clearly defined on the applicable personnel action forms for the employees. Further, there were no work schedules to identify the part-time work hours expected to be completed by the temporary employees. In the absence of such documentation, we could not differentiate the timesheet hours as part-time work performed or work absences that were not properly documented.

Effect: There is a significant risk that the Chapter may inadvertently pay employees for hours not actually worked.

Cause:

1. The Chapter administration did not understand personnel practices of defining an employee's work hours whether full-time or part-time, and how such hours should be reconciled to actual work hours.
2. The Chapter officials did not verify that there was support documents for hours not worked prior to approving payroll.

LGA Review Findings

- Recommendations:**
1. The Community Services Coordinator should create and approve work schedules for employees especially part-time employees.
 2. The Community Services Coordinator and officials should make sure when signing payroll checks that employee work hours are supported with proper documentation including any work absences.

Finding VIII: Temporary employees were hired contrary to personnel policies.

Criteria: FMS Personnel Policies and Procedures, Section IV, states the Chapter Manager shall be responsible for establishing, implementing and monitoring an effective recruitment and selection process. All selection methods and criteria shall be job related, selection methods include any assessment or technique used as qualifying mechanisms; physical, education, work experience requirements, formal and informal interviews, and application forms.

Condition: Although the Chapter was required to implement a selection process that includes interviews with applicants, the Chapter administration did not conduct interviews with PEP employees who reapplied for their positions. There was no evidence of how the Chapter determined these individuals were still qualified for their respective positions or remained suitable candidates to continue employment with the Chapter.

Effect: The Chapter's hiring practice does not meet the objective of the PEP funding which is for on-the-job training with short-term employment. Rehiring of the same individuals does not facilitate an opportunity for other community members to benefit from the Public Employment Program.

Cause: The Community Services Coordinator explained the same employees were the only applicants. As such, he did not think it was necessary to conduct an interview but to proceed with rehiring the same employee.

- Recommendations:**
1. After assessment of qualifications, the Community Services Coordinator should schedule interviews with applicants who qualified for the position.
 2. The Community Services Coordinator should establish an interview panel and document the results of the interviews.

Finding IX: Travel documents are incomplete.

Criteria: FMS Fiscal Policies and Procedures, Section VII.I., requires all travel requests to be approved prior to travel. Travelers are required to submit expense reports, trip reports and receipts to support travel

LGA Review Findings

expenses. Employees are to be reimbursed for actual mileage at the Navajo Nation established mileage rate.

Condition: For the review period, 10 travel authorizations were examined and the following discrepancies were noted:

- 6 (\$2,025) of 10 Travel Authorization Forms were signed by the approver but without dates so approval prior to departure could not be verified.
- 1 (\$544) of 10 travel voucher packets included an incomplete mileage report so mileage reimbursed could not be verified as accurate.

Effect: Due to incomplete supporting documentation, the Chapter cannot provide reasonable assurance that travel requests were properly approved before travel commenced and related expenses were justified.

Cause:

1. The President signs the travel authorization forms for the Community Services Coordinator but forgets to provide a date with the signatures.
2. The Chapter officials did not review the travel vouchers to make sure they were complete before signing travel checks.

Recommendations:

1. The Accounts Maintenance Specialist should verify that approvers sign and date travel authorization forms prior to travel.
2. The Community Services Coordinator should verify the mileage report is completely filled out to support mileage paid to the traveler.

Finding X: Inadequate assessments and conflicting policies contributed to incomplete housing projects.

Criteria: Crownpoint Chapter Housing Policies and Procedures, Section VI and IX, requires the chapter administration to complete an assessment of the home to assess the needs and qualifications of the applicant. Section XI, requires the applicant to complete housing projects within 30-40 days from the date of receiving assistance. The applicant is responsible to complete all work needed using the materials purchased with the awarded funds. Materials stolen or damaged are the responsibility of the applicant.

Condition: For the review period, 10 housing assistance awards totaling \$7,926 were examined for compliance with policies. Of this number, three projects awarded on June 30, 2022 were still incomplete as of October 2022.

LGA Review Findings

These projects are incomplete because the recipient needed assistance to pick up materials or with labor to complete the housing project. The Chapter did not timely detect that recipients were not able to complete projects within 30-40 days as required by policies.

Effect: Any unused building materials are at risk of being stolen or damaged resulting in wasted resources and financial loss to the Chapter. More important, recipients in need of housing assistance would not benefit from the Chapter assistance.

Cause:

1. The Chapter did not perform an adequate assessment to ensure the recipient had sufficient resources/capabilities to complete the project.
2. The terms stipulated in the Chapter's assessment form implies the recipient can request for labor assistance from the Chapter but this contradicts the housing policy that states the recipient is responsible for identifying the help needed from family members or other resources to install the materials provided by the Chapter.

Recommendations:

1. The Community Services Coordinator should identify resources to provide labor assistance to recipients who have not completed their housing projects to avoid further deterioration of materials.
2. The Chapter administration should revise the housing policies and forms to ensure they are clear and consistent on the type of assistance the Chapter can provide.
3. The Community Services Coordinator should perform thorough assessments to make sure all applicant needs are identified during the initial stages of the process.

Finding XI: Property inventory is not maintained in accordance to policies.

Criteria: FMS Property Policies and Procedures, Section V, states the Accounts Maintenance Specialist shall conduct a physical inventory count of property and equipment on an annual basis and the Community Services Coordinator shall reconcile the inventory list. Section VII.A. requires the property inventory to be complete, detailed, accurate, and recorded on the Chapter Physical Equipment Inventory form.

Condition: The Chapter does not maintain a comprehensive property inventory that summarizes pertinent information of all chapter property. Rather, the Chapter relies on the Risk Management Department forms as their inventory records. However, these forms do not facilitate consistency in the accounting and reporting of all chapter property.

In addition, the following discrepancies were noted:

1. Not all property items have a property number identified on the property inventory.

LGA Review Findings

2. The purchase date of several property items is not documented and unknown.
3. The serial number for various property items is not documented.
4. Building materials intended for housing projects were erroneously recorded on the property inventory.

Effect: Without proper recordkeeping, the Chapter cannot provide assurance all property owned and controlled by the chapter are accounted for. This would impede the Chapter in recovering any potential property loss in the event of damages or theft.

Cause: The Community Services Coordinator rather than the Accounts Maintenance Specialist completes the annual physical count and updates the inventory contrary to policies. This prevented the Community Services Coordinator from applying segregation of duties to reconcile the inventory.

Recommendations:

1. The Community Services Coordinator should create a comprehensive property inventory that includes all pertinent information as required by the policy.
2. The Accounts Maintenance Specialist should complete the annual physical count of property and update the inventory.
3. The Community Services Coordinator should review the inventory maintained by the Accounts Maintenance Specialist to ensure property records are complete and accurate.

Finding XII: The Chapter did not comply with PEP Policies and Procedures.

Criteria: Crownpoint Chapter Public Employment Program (PEP) Policies and Procedures, Section II, states the purpose of the fund is to provide on-the-job training to selected applicants so they can become competent and obtain permanent employment with other employers. Section VIII, states that for each project the Chapter administration shall develop a project application.

Condition: For the review period, there were four PEP employees (Office Assistant, Indian Market Attendant, Trash Attendant, and Maintenance worker). Each position is considered a PEP project and our examination of these projects revealed the following:

1. All four PEP projects were combined onto one project application. This is contrary to policy which requires a project application for each position.
2. Further, the combined project application was too vague; the description of each project, what tasks would be completed for each project, what resources would be needed for each project, and the budget for each project were not clearly defined.

LGA Review Findings

3. Although the PEP funding is intended for on-the-job training, no training plans were on file to show the Chapter positions met the funding intent.

Effect: Members of the chapter community lose out on the opportunity to receive training, improve job skills, and seek further employment beyond the Chapter.

Cause The Community Services Coordinator does not have a full understanding of the PEP funding intent and policies and procedures.

- Recommendations:**
1. The Chapter administration should receive additional training on the Public Employment Program.
 2. The Chapter administration should create a project application for each PEP project to adhere to policies and procedures.
 3. The Chapter administration should maintain documentation such as training plans to demonstrate compliance with the PEP funding intent. The training plans should be used to help monitor the employees in meeting their training objectives.