

OFFICE OF THE AUDITOR GENERAL

The Navajo Nation

Internal Audit of the Cove Chapter

Report No. 23-15
June 2023

Performed by:
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June 30, 2023

James Benally, President

COVE CHAPTER

P.O. Box 378

Red Valley, AZ 86544

Dear Mr. Benally:

The Office of the Auditor General herewith transmits Audit Report No. 23-15, an Internal Audit of the Cove Chapter. The audit objective was to determine whether the Chapter maintains adequate internal controls to safeguard assets, ensure reliability of its financial reporting, and comply with applicable laws, regulations, policies and procedures. During the 12-month audit period ending September 30, 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: The last independent financial statement audit was completed in 2017.
- Finding II: Fixed asset values reported in the balance sheet cannot be justified.
- Finding III: Accounting system oversight needs be strengthened.
- Finding IV: Work absences are not tracked by the Chapter.
- Finding V: The Chapter utilizes a store charge account without established controls in place.
- Finding VI: The Chapter did not comply with housing policies and procedures.
- Finding VII: Travel expenditures of \$4,800 cannot be justified.
- Finding VIII: A conflict of interest exists in the payments to the relatives of the Chapter administration.
- Finding IX: Property records are incomplete and inaccurate.
- Finding X: The Chapter did not comply with the Sihasin Fund reporting requirements.
- Finding XI: Monthly Financial reporting is not provided to the community membership.

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 contact our office at (928) 871-6303.

Sincerely,

A handwritten signature in black ink, appearing to read "Helen Brown".

Helen Brown, CFE, Principal Auditor
Delegated Auditor General

xc: Vacant, Vice President
Charlotte Yazzie, Secretary/Treasurer
Lorraine Johnson-Roy, Chapter Manager
Amber Kanazbah Crotty, Council Delegate

COVE CHAPTER

James Adakai, Delegated Department Manager II

Eliza-Beth Washburne, Senior Programs and Projects Specialist

ADMINISTRATIVE SERVICE CENTER/DCD

Chrono

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REVIEW RESULTS

Finding I: The last independent financial statement audit was completed in 2017.

Criteria: Five Management System (FMS) Fiscal Policies and Procedures, Section VII.M.1., states the Cove Chapter (Chapter) is to obtain an audit of its financial operations at least every two years and which shall include funds received from all Navajo Nation, State, County, Federal, and other fund sources.

Condition: The Chapter was certified in 2015. They obtained a financial statement audit for fiscal years 2016 and 2017 which reported unmodified opinions but the Chapter financial operations for fiscal year 2018 through 2022 have not yet been audited. The Chapter is in violation of established policies and procedures. Furthermore, the 2017 audit identified three findings but the Chapter did not develop a corrective action plan to address the findings and based on this current audit, the issues remain unresolved.

Effect: As a certified Navajo Nation chapter, the Chapter was given full responsibility for its finances and operations. Without financial audits, the Chapter cannot provide assurance its financial management system generates reliable and accurate financial statements. Furthermore, without a corrective action plan, the Chapter did not correct the control deficiencies to mitigate potential risks.

Cause: The Chapter Manager stated the financial audits were not conducted due to the COVID-19 pandemic. The Chapter budgeted funds for the FY2022 financial statement audit, but as of this internal audit, the Chapter has not procured an audit firm.

Recommendations:

1. The Chapter officials should require the Chapter Manager to complete a financial statement audit every two years.
2. The Chapter Manager should procure a certified public accountant in accordance with applicable policies and procedures.

Finding II: Fixed asset values reported in the balance sheet cannot be justified.

Criteria: Local Governance Act (LGA), Section 2., and FMS Property Policies and Procedures, Section IV.J., states capitalized property is nonexpendable property having an acquisition value of \$1,000 or more. Section VII.B.1. and 2., states the Administrative Assistant is responsible for classifying and recording property to the Capital Asset Inventory sheet.

Condition: The Chapter uses the MIP fixed asset module to manage the accounting of fixed assets. However, the following discrepancies were noted:

1. Depreciation expenses for fiscal years 2021 and 2022 have not been recorded in the accounting system.

2. Only fixed assets of \$5,000 or more in value are currently recorded; consequently, 33 fixed assets with a value of \$1,000 to \$4,999 were omitted from the accounting system.
3. The Chapter erroneously combined the value of 25 bicycles and recorded this total value as a fixed asset.
4. Total fixed assets on the property inventory was \$1,473,391 but the balance sheet reports \$1,420,741, resulting in a variance of \$52,650 in unreported assets.
5. 10 of 20 (50%) fixed assets totaling \$799,275 were examined and the following exceptions were noted:

Type of Exceptions	No. of Exceptions
Reported fixed asset value lacks supporting invoice or appraisal.	3 of 10 (30%) = \$49,403
No support documentation on how depreciation was determined.	10 of 10 (100%) = \$799,275

Effect: Due to incomplete and inaccurate financial reporting of fixed assets, the balance sheet is unreliable. Poor financial reporting will hinder the Chapter from making informed financial decisions.

Cause:

- The Chapter staff misunderstood the required fixed asset value threshold and omitted other assets that should have been reported.
- The Chapter Manager did not know how to depreciate fixed assets and relied on a consultant to post depreciation information into the accounting system without source information.
- The Chapter Manager did not reconcile the fixed assets information on the property inventory against the balance sheet for accuracy.
- The Chapter does not have sufficient and adequate fixed asset records including records of assets acquired in prior years.

Recommendations:

1. The Chapter Manager should verify the Administrative Assistant posted depreciation expenses for fiscal years 2021 and 2022 and fixed assets totaling \$1,000 or more.
2. The Administrative Assistant should support all fixed asset values of \$1,000 or more with documentation such as appraisals or invoices. Otherwise, the Chapter Manager should value assets at fair market value.
3. The Chapter Manager should obtain information and training on asset depreciation.
4. The Chapter Manager should reconcile the fixed asset values reported in the monthly balance sheet against support documentation.

Finding III: Accounting system oversight needs to be strengthened.

Criteria: FMS Fiscal Policies and Procedures, Section V.D.2., states the primary objective 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. N.N.C. Title 26, Local Governance Act, also states the Secretary/Treasurer is to monitor the maintenance of an adequate accounting system.

Condition:

The Administrative Assistant solely manages the accounting system without proper oversight by a supervisor. Such control weakness explains the following discrepancies:

1. Expenditures totaling \$2,020 were erroneously posted and went undetected.
2. The Chapter administers the Veterans Committee (Committee) funds in the MIP system under a separate bank account. The Committee issued a check to the Chapter totaling \$785 to pay an expense on behalf of the Committee. The Chapter deposited the funds to the Chapter bank account and recognized the funds as Chapter revenue and subsequently issued a Chapter check to pay the Committee expense. This action caused the revenue and expense transactions to be recognized twice in the accounting system. Revenue is first recognized when the Committee received the funds then again when the Chapter received the check from the Committee. Expenses were first recognized when the Committee issued the check to the Chapter, then again when the Chapter paid the Committee expense.
3. An \$80 deposit in October 2021 was mistakenly posted as \$8 revenue resulting in \$72 unreported revenue.
4. Unapproved budgets totaling \$11,945 were posted to the accounting system.
5. 74 journal vouchers totaling \$1,056,659 were posted in the accounting system. The Chapter Manager and Secretary/Treasurer approve the journal voucher entries on a MIP-fund approval form before the Administrative Assistant posts the data into the accounting system. Thereafter, the posted entries are reviewed and approved by the Chapter Manager and Secretary Treasurer on a MIP posted journal ledger transaction report. However, the Chapter has not established policies for journal voucher approval, entry, and review. This was also a finding in the Chapter's FY2017 Financial Statement audit.

Effect:

The financial reports generated by the accounting system cannot be deemed reliable. This poses risks such as an unfavorable audit opinion, errors in financial decision-making, and lack of financial transparency to the community membership.

Cause:

- The Chapter Manager and Chapter officials did not verify posted transactions against support documentation for accuracy because they presumed the Administrative Assistant was posting correct entries.
- The Chapter Manager stated the data entry was the responsibility of the Administrative Assistant and that she was more experienced with the MIP accounting system.

- Recommendations:
1. The Chapter administration should follow budget and accounting policies and procedures.
 2. The Chapter Manager should reconcile posted transactions against support documentation for accuracy.
 3. The Chapter Manager should request MIP training to strengthen her knowledge and monitoring over the accounting system.
 4. The Chapter Manager should establish written procedures for journal voucher approval, entry, and review.

Finding IV: Work absences are not tracked by the Chapter.

Criteria: FMS Personnel Policies and Procedures, Section XI.A.2., states application for leave of any kind or duration must be initiated by the employee in writing and presented to the Chapter Manager for approval prior to taking leave. Section IX. E.2. and E.2.b states in lieu of cash payment, an employee may be eligible to earn compensatory time that shall be arranged by the employee and the Chapter Manager. The Chapter Manager shall properly account for compensatory time earned and taken by employees.

FMS Fiscal Policies and Procedures, Section VII.H.2.c., states time records will be maintained for each employee to accumulate and report the following: hours worked, hours absent, hours on approved leave, type of approved leave, and hours of unauthorized absence. Time records must be submitted for payroll purposes.

Section VI.F.3. states the Chapter Manager will be responsible for developing and issuing procedures on the types of alternative work schedules available.

Condition: The Chapter's workforce included permanent and temporary workers. 40 payroll transactions totaling \$31,066 were examined and there is no consistency in the process for tracking work absences. The following discrepancies were noted:

1. Only the permanent staff, Chapter Manager and Administrative Assistant, are required to submit leave request forms for absences.
2. On-call employees, who work only when called upon, and full-time temporary employees are not required to submit leave request forms for absences. In lieu of leave request forms, the hours worked and not worked by employees were documented on sign-in sheets and signed by the employee to confirm the hours worked.
3. There is no documentation to support the on-call status of employees including policies or work schedules.
4. Compensatory time recorded on the timesheet for two temporary employees were not supported with an approved compensatory time form; one form was not on file while the other form was not approved by the Chapter Manager.

The issue of unapproved leave and compensatory time are repeat findings from the Chapter's FY2017 financial statement audit.

Effect: In the absence of consistency in tracking work absences, there is an increased risk that employees may record work hours that were not actually worked to the sign-in sheets. In addition, allowing compensatory time to be used without evidence that hours are earned is misuse of funds.

Cause:

- Contrary to Personnel Policies and Procedures, the Chapter Manager made the internal decision to not require on-call and temporary employees to submit leave request forms. This action is not documented or approved.
- The Chapter staff never considered establishing policies or documenting work schedules for on-call employees to ensure alternate work schedules could be justified to explain work absences recorded on the timesheet.
- The Chapter Manager did not verify proper compensatory time forms were complete and approved prior to authorizing payroll.

Recommendations:

1. The Administrative Assistant should verify approved leave forms, compensatory time forms, and alternative work schedules are on file to support absences recorded to the timesheets prior to processing documents for approval.
2. The Chapter Manager and Secretary/Treasurer should verify approved leave forms, compensatory time forms, and alternate work schedules reconcile to the timesheet prior to signing payroll checks.
3. The Chapter Manager should develop policies and procedures on how to administer on-call activities.

Finding V: The Chapter utilizes a store charge account without established controls in place.

Criteria: FMS Fiscal Policies and Procedures, Section VII, states the Chapter is required to establish internal controls to ensure its assets and resources are protected against waste, fraud, and inefficiency.

Condition: The Chapter maintains an open charge account with the local gas station to purchase diesel and unleaded fuel for Chapter heavy equipment. However, the Chapter has no internal policies and procedures for the management of the account which was opened in 2016. The following are deficiencies noted with the account:

1. There is no written agreement with the local gas station that defines the terms and conditions of the account.
2. There is no Chapter resolution that authorizes the charge account.
3. There is no approved budget for unleaded gasoline purchases, only diesel purchases. Of the \$1,189 of diesel fuel expenses posted to the accounting system, \$733 (62%) was for unleaded gasoline purchases.

- It was unclear if the purchases were for legitimate Chapter business since the gas receipts do not identify the vehicle that received the fuel.
4. The Chapter Manager or Administrative Assistant calls ahead to the gas station to verbally identify the authorized purchaser, however the Chapter Manager did not document the approval to identify the authorized purchaser, authorized heavy equipment, and the purpose of the purchase.
 5. The Chapter Manager authorized three community members to purchase unleaded fuel totaling \$93.50 for assisting a semi-truck stuck in mud while delivering goods to the Chapter. This authorization was not documented.
 6. Since the gas station is 13 miles from the Chapter and heavy equipment cannot be driven that far, the staff will transport fuel using fuel containers. However, this process is not supported with a log sheet to track who transported the fuel, and how much fuel was purchased and used.

Effect: In the absence of key controls, the Chapter is at risk for 1) unauthorized account users, 2) unauthorized purchases, 3) unauthorized vehicles being filled with gasoline/diesel fuel, and 4) excessive spending.

- Cause:**
- The Chapter established the account because it was a convenient way to purchase fuel. The Chapter Manager did not consider the risk of having an open charge account without controls in place to effectively manage its activities. The Chapter Manager assumed their unwritten understanding of the process for using the account was sufficient since there had been no previous issues with the account.
 - The Chapter has one heavy equipment that uses unleaded gasoline for fuel. Therefore, all fuel purchases for the heavy equipment were posted to the diesel fuel account.

- Recommendations:**
1. The Chapter Manager and officials should establish and adopt policies and procedures to include: a) authorized account users, b) authorized Chapter vehicles, c) authorized purchases, d) authorized spending limits, e) monitoring requirements, f) and consequences for unauthorized activities.
 2. The Chapter Manager should establish an agreement with the local gas station, obtain Department of Justice review, and obtain community approval. The agreement should incorporate controls for the store to document the purchaser and description of the vehicle receiving fuel.
 3. The Chapter Manager should establish a budget for unleaded fuel purchases.
 4. The Chapter Manager should review gas receipts to verify authorized purchasers and vehicles prior to authorizing payment of invoices. Immediate action should be taken for unauthorized purchases.

Finding VI: The Chapter did not comply with housing policies and procedures.

Criteria: Housing Discretionary Policies and Procedures, Section V.B.1., states the required forms on the checklist will be on file before approving housing assistance. Section IV.J., states an assessment of the house shall be required to determine if the house needs repairs. Section VI.B. states the selection committee will review the supporting documents and recommend awards based on a ranking system. Section IV.D. states the point allocation sheet shall be kept in each applicant’s folder. Section V.C. states the assistance is limited to once per family every 12 months. Section IV.G., states prior to commencing any work, the Chapter Manager shall prepare a statement of work. Section IV.H., states upon completion of the work, the Chapter Manager shall prepare a performance report briefly describing the accomplishment as they relate to the statement of work.

Condition: For the review period, all seven (100%) housing assistance disbursements totaling \$10,480 were examined and the following exceptions were noted:

Type of Exceptions	No. of Exceptions
Required documents per the checklist were not on file.	4 of 7 (57%) = \$5,468
Applicant was assisted more than once in a year.	1 of 7 (14%) = \$102
Point allocation sheet was not on file.	2 of 7 (29%) = \$2,102
Statement of work was not on file.	7 of 7 (100%) = \$10,480
Performance report was not on file.	7 of 7 (100%) = \$10,480

Effect: Housing Discretionary Funds totaling \$7,468 may have been awarded to individuals who were ineligible, thus community members with greater needs may have been overlooked. In addition, materials awarded to seven recipients totaling \$10,480 could have been stolen, damaged or misused without the Chapter’s knowledge since the Chapter did not verify its use. This would be a financial loss to the Chapter.

Cause:

- The Chapter Manager did not properly review the housing application packet for completeness using the check list prior to approval.
- The checklist used by the Chapter to verify compliance with policies does not include the statement of work and performance report so these tasks were not completed by the staff.
- The Chapter Manager approved assistance to one recipient in December 2021. In May 2022 another check was issued to the recipient because more materials were needed to complete the initial repairs, but there are no records on file to justify the issuance of a second check.

Recommendations:

1. The Chapter Manager should verify documents submitted by applicants against the checklist for completion prior to approving assistance.
2. The Chapter Manager should verify the point allocation sheet is complete and use it to determine priority in awarding assistance.

3. The Chapter Manager should add the statement of work and performance report to the checklist to verify its completion and confirm building materials are used for its approved purpose.
4. The Chapter officials should review the performance report to confirm that the Chapter Manager verified materials are used for their approved purpose, then sign and date the report after verification.

Finding VII: Travel expenditures of \$4,800 cannot be justified.

Criteria: FMS Fiscal Policies and Procedures, Section I, states all travel requests, advances and reimbursements will be approved. Travelers are required to submit expense reports, trip reports, and receipts to support travel expenses. Mileage will be reimbursed at the actual mileage. All travelers may only be reimbursed for reasonable travel expenses. Section VII.B.2.d. states the Chapter Manager and Secretary/Treasurer shall review the completed check with all supporting documentation before co-signing the check. Section VII.I.10.h., states the Chapter Manager will review all supporting statements (expense and trip reports, and receipts) and calculate over or underpayment. Section VII.I.7 states if a personal vehicle is used on Chapter business, employees shall be reimbursed for actual mileage at the Navajo Nation established mileage rate. Section VII.I.8 states the Chapter reimbursement rate for meals shall not exceed the Navajo Nation established rates.

Condition: Travel authorizations totaling \$7,191 were examined and the following exceptions were noted:

Type of Exceptions	No. of Exceptions
Support documents such as lodging receipts, meal receipts, and insurance card were not on file.	3 of 31 (10%) = \$1,022
Travel reimbursement checks were signed before travel expense reports were approved.	3 of 31 (10%) = \$459
Mileage rates paid to travelers were not in accordance with the Navajo Nation established mileage rate.	10 of 31 (32%) = \$2,195
Reimbursed miles exceed approved miles.	10 of 28 (36%) = \$3,164
Travel advance is not approved.	2 of 31 (6%) = \$323

Effect: There is no assurance that legitimate travel expenses were incurred. Therefore, travel disbursements totaling \$4,800 are questionable.

Cause:

- The Chapter staff neglected to retrieve applicable travel rates at the beginning of each new fiscal year.

- The Administrative Assistant and Chapter Manager are not verifying that travel expenses claimed by the traveler are consistent with the authorized travel expenses.
- The Chapter Manager and officials are signing checks without verifying all travel documents are submitted by the traveler and approved.

- Recommendations:
1. The Chapter staff and officials should comply with Travel Policies and Procedures.
 2. The Chapter staff should retrieve the Navajo Nation travel rates from the Office of the Controller website at the beginning of each year.
 3. The Chapter Manager and Chapter officials should ensure all travel documents are submitted, verified for completeness and accuracy, and approved before travel advance and reimbursement checks are signed.

Finding VIII: A conflict of interest exists in the payments to the relatives of the Chapter administration.

Criteria: FMS Procurement Policies and Procedures, Section IV, states the Chapter is to treat all perspective vendors in an equal and fair manner and not give preferential treatment to any vendor and ensure maximum open and free competition regardless of the dollar value. FMS Fiscal Policies and Procedures, Section VII.N.a., states all Chapter officials and Chapter employees shall refrain from making, participating in or influencing decisions where there is any real or potential conflict of interest. In the event of a real or potential conflict of interest where the Chapter official or employee is required to participate as part of his or her official duties, the individual shall write a justification memorandum disclosing the real or potential conflict of interest and the necessity for that individual's continued participation. A copy shall be provided to the Navajo Nation Ethics and Rules Office and the Chapter administration. Section VII.B.2.b, states the Administrative Assistant shall ensure that the Fund Approval Form indicates payment authorization and that all source documents (i.e., invoices, quotes, claim forms, timesheets and similar documents) support each disbursement before preparing a check for payment.

Condition: The Chapter staff participated in the processing and approval of payments to immediate family members without justification. The staff neglected to document their potential conflict of interest to be transparent in the payment process. The following are instances in which a conflict of interest was noted:

1. The Chapter Manager's husband serves on the Chapter's community land use planning committee and is compensated for stipend and travel. Records showed the Chapter Manager signed documents that approved payments totaling \$1,898 to her husband. No written justification was on file.
2. The Chapter procured t-shirts for a summer youth event. The Administrative Assistant is responsible for obtaining quotes and

processing the fund approval forms for payment. On two separate occasions, the Chapter purchased t-shirts totaling \$520 from the Administrative Assistant's sister. In the first purchase, the Administrative Assistant obtained three quotes and the sister was the selected vendor even though she had the highest quote. On the second purchase of t-shirts, the Administrative Assistant did not seek quotes from vendors but her sister was again the selected vendor. On both occasions, the Administrative Assistant processed and signed the fund approval form to request for payment. The Chapter Manager explained that their selection was based on choosing a local vendor, but no written justification was on file.

Effect: These actions by the staff indicate favoritism and the community could raise questions about how staff are managing public funds.

Cause: The Chapter staff and officials did not perceive their actions to be a conflict of interest.

Recommendations:

1. The Chapter staff and officials should comply with the Procurement Policies and Procedures in the selection of vendors.
2. The Chapter staff and officials should recuse themselves from participating/influencing, initiating, processing, and approving payments to immediate family relatives.
3. The Chapter staff and officials should seek training from the Navajo Nation Ethics and Rules Office on understanding and identifying conflicts of interest.

Finding IX: Property records are incomplete and inaccurate.

Criteria: FMS Property Policies and Procedures, Section VII.B.1. and 5., states the Chapter Manager will conduct the physical count of inventory that will involve an actual observation and identification of each piece of property using the Chapter Physical Inventory Form. A property condition check is a part of the inventory count and shall be recorded on the inventory form. The Chapter Manager shall reconcile and adjust the inventory count and listing for accuracy and completeness on an annual basis or at the time of acquisition or disposition.

Condition: The last known physical inventory was completed in fiscal year 2021; there was no current inventory. The inventory provided by the Chapter did not identify who completed the inventory, was missing detailed information such as location, condition, model number, and tag numbers were listed twice for the same item.

Effect: The Chapter will not be able to identify property for insurance purposes in the event the item(s) is damaged or stolen.

Cause: The Chapter Manager maintains the property inventory but there are no independent reviews to ensure its accuracy. The Chapter officials do not monitor the activities and tasks by the Chapter Manager and consequently, the lack of an updated and comprehensive property inventory went undetected.

- Recommendations:
1. The Chapter Manager should assign the Administrative Assistant to complete an annual physical count of inventory and update the inventory form with complete and reliable information, then the form should be signed and dated by the Administrative Assistant.
 2. The Chapter Manager should verify the inventory form for accuracy, then sign and date the form as the reviewer.
 3. The Chapter President should monitor the property inventory for completion, then sign and date the inventory form.

Finding X: The Chapter did not comply with the Síhasin Fund reporting requirements.

Criteria: A contract between the Division of Community Development (DCD) of the Navajo Nation and Cove Chapter authorizes the Chapter to take responsibility for the Síhasin Fund contingent upon the following reporting requirements:

- Monthly written updates and meetings with Navajo Nation/Capital Projects Management Department (NN/CPMD) to discuss the status of the Grant Project and Grant Project Fund. The written updates should, in addition to meeting the requirements set forth in the Agreement, include budget updates, status of the Grant Project, and details of any challenges that the Chapter may be encountering (Section 6.B.8).
- Quarterly expenditure and project status reports to NN/CPMD, Office of the President and Vice-President, Resource and Development Committee (RDC), Budget and Finance Committee (BFC), and the Nabik'iyati' Committee (NABI)-(Section 13.C.).
- Final Report to NN/CPMD summarizing the actual expenditures incurred, along with supporting documentation, including, at a minimum, interior and exterior photographs of the Grant Project, and a Release of Claims and a Certificate of Occupancy issued by a licensed Building Inspector-(Section 13.D.).
- Failure to Comply. If Chapter does not produce the required financial reports and any requested supplemental documents within the prescribed time and to the full satisfaction of the NN/CPMD, the NN/CPMD may withhold subsequent disbursements of Grant Project Funds or any other funds, or may terminate this Agreement-(Section 13.E.).

Condition: In 2018, the Navajo Nation President signed resolution no. CAP-35-18 to appropriate \$255,704 of Síhasin Funds to Cove Chapter for the renovation of the Cove Senior Center. The contract between DCD and the Chapter was executed in December 2021 and funds were disbursed to the Chapter in

March 2022. The Chapter initiated renovations in June 2020 and it was completed in August 2020 prior to the signing of the agreement with DCD. Payment to the contractor was made in March 2022 in the amount of \$152,130 leaving a balance of \$103,574. Throughout the project, the Chapter did not submit any of the required reports to the various departments.

Effect: Lack of reporting impacts the Navajo Nation’s ability to ensure the Chapter is accountable and fulfilling its responsibility for the Síhasin funded project. More importantly, this could impact the Chapter’s ability to obtain similar Navajo Nation capital project funds in the future.

Cause:

- The Chapter President stated he entrusted the Chapter official supervising the Chapter Manager to ensure the project management of the Síhasin Fund was performed but never verified it.
- The Chapter Manager worked with CPMD on the project, however there was no evidence that the Chapter requested technical assistance on project management and reporting requirements.

Recommendations:

1. The Chapter Manager should submit the final report on the Senior Citizen Renovation to DCD/CPMD, RDC, BFC, and NABI.
2. The Chapter official assigned to supervise the Chapter Manager should verify the Chapter Manager remits the final report on the Senior Center Renovation to DCD/CPMD, RDC, BFC, and NABI.
3. The Chapter Manager should request for training on project management and reporting requirements from CPMD.

Finding XI. Monthly financial reporting is not provided to the community membership.

Criteria: FMS Fiscal Policies and Procedures, Section VII.L. 1. and 2., states the Chapter Manager shall prepare the monthly Statement of Revenues and Expenditures, Balance Sheet, and Budget and Actual report and LGA, Section 1001.3.i. states the Secretary/Treasurer shall present it to the community at a duly called Chapter meeting each month.

Condition: Four months of meeting minutes were examined and only fund balances were reported to the community with no attached reports to the minutes. The Secretary/Treasurer acknowledged she receives all three financial reports from the staff, however reported only the fund balances for simplicity. However, this approach meant other relevant financial information such as revenues, expenditures, and fixed assets, were not reported to the community. In addition, the Chapter’s public bulletin board is used to post financial reports but during our site visit to the Chapter in March 2023, the bulletin board had financial reports for the month of January 2023 posted.

Effect: Financial information not shared with the community impedes their ability to make informed decisions. The lack of transparency can impact the public's trust in the Chapter staff and officials.

Cause:

- The Secretary/Treasurer explained that the Chapter Manager and Administrative Assistant did not attach the financial reports to the meeting minutes. However, it is the Secretary/Treasurer's responsibility to include supporting documents with the meeting minutes when filed with the Chapter.
- The Chapter staff also explained that since the COVID-19 pandemic, the Chapter meetings were limited, therefore only the fund balances were provided.
- The Administrative Assistant, just hired in March 2023, had not been trained to update the bulletin board with the most recent financial statements.

Recommendations:

1. The Secretary/Treasurer should report the budget to actual, balance sheet, and income statement to the community membership to explain the financial position of the Chapter and document this action in the meeting minutes.
2. The Secretary/Treasurer should attach the financial statements to the meeting minutes prior to submitting it to the administration.
3. The Administrative Assistant should update the bulletin board with the most recent financial statements each month.

CONCLUSION

The Chapter's last independent financial statement audit was completed in 2017. The fixed asset values reported in the balance sheet cannot be justified. The accounting system oversight needs to be strengthened. Work absences are not tracked by the Chapter. The Chapter utilizes a store charge account without established controls in place. The Chapter did not comply with housing policies and procedures. Travel expenditures of \$4,800 cannot be justified. A conflict of interest exists in the payments to the relatives of the Chapter administration. Property records are incomplete and inaccurate. The Chapter did not comply with the Síhasin Fund reporting requirements. Monthly financial reporting is not provided to the community membership.

Overall, internal controls are not functioning as designed to ensure the Chapter maintains adequate internal controls to safeguard assets, ensure reliability of its financial reporting, and comply with applicable laws, regulations, policies and procedures. Key internal controls are non-existent or ineffective. These deficiencies resulted in the 11 findings identified in the audit report.

As an LGA certified chapter, the Cove Chapter is held to a higher standard which requires the Chapter to consistently and continuously implement controls to ensure Chapter funds are spent in accordance with Navajo Nation laws and Chapter policies and procedures. However, current audit issues do not demonstrate controls are being implemented. Some of the current audit issues are a repeat of prior audit issues from previous external audits of the Chapter. This is concerning as it means the Cove Chapter officials and Chapter Manager are not maintaining an acceptable standard for accountability and fiscal responsibility.

Considering that the Chapter is not demonstrating the capabilities that an LGA certified chapter should have, the Office of the Auditor General recommends that the Shiprock Administrative Service Center take on a more active and significant role with the Cove Chapter operations and finances. The Shiprock Administrative Service Center needs to maintain a constant presence at the Chapter to instill accountability by providing close technical assistance and monitoring to bring the Chapter back to acceptable status.

BACKGROUND

The Navajo Nation Office of the Auditor General has conducted an Internal Audit of the Cove Chapter for the 12-month period of October 1, 2021 to September 30, 2022.

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

The local Chapter government is managed by the Chapter Manager with administrative support provided by the Administrative Assistant. The Chapter Manager has been employed with the Chapter since 2012 and the current Administrative Assistant was hired in March 2023. 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.

The Cove 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 Cove Chapter are enumerated in Title 26, Local Governance Act of the Navajo Nation Code. The Cove Chapter is an LGA certified Chapter since 2015.

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. Cove Chapter's operating budget for the review period was approximately \$1,480,075.

Objective, Scope, and Methodology

The Office of the Auditor General conducted an Internal Audit of the Cove 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. Independent financial statement audits are completed.
2. Reliable fixed asset values are reported in the balance sheet.
3. Accounting system oversight is performed.
4. Work absences are tracked by the Chapter.
5. Controls are in place for the store charge account.
6. Compliance with the housing policies and procedures
7. Travel expenditures are approved and supported.
8. No conflict of interest exists in the administration of the Chapter.
9. Property records are complete and accurate.
10. Compliance with the Síhasin Fund reporting requirements.
11. Monthly financial reporting to the community membership.

The audit covers activities for the 12-month period of October 1, 2021 to September 30, 2022.

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, financial assistance, personnel records, 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 Cove Chapter administration and officials for their cooperation and assistance throughout the audit.

CLIENT RESPONSE



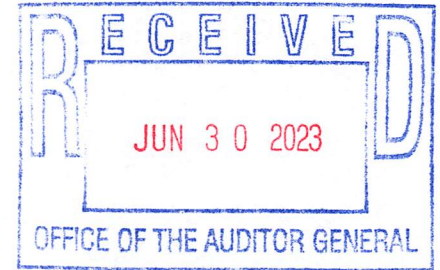
COVE CHAPTER

NAVAJO NATION CERTIFIED CHAPTER GOVERNMENT

JAMES BENALLY, CHAPTER PRESIDENT
VACANT, CHAPTER VICE-PRESIDENT
CHARLOTTE YAZZIE, CHAPTER SECRETARY/TREASURER
AMBER KANAZBAH CROTTY, COUNCIL DELEGATE

June 26, 2023

Helen Brown, CFE, Principal Auditor
Delegated Auditor General
Office of the Auditor General




Dear Ms. Brown:

We accept the Office of the Auditor General Cove Chapter's Internal Audit Findings listed in your memorandum dated June 23, 2023. Review Results:

- Finding I: The Last independent financial statement audit was completed in 2017.
- Findings II: Fixed asset values reported in the balance sheet cannot be justified.
- Findings III: Accounting system oversight needs to be strengthened.
- Findings IV: Work absences are not tracked by the chapter.
- Findings V: The Chapter utilizes a store charge account without established controls in Place.
- Findings VI: The Chapter did not comply with housing policies and procedures.
- Findings VII: Travel expenditures of \$4,800 cannot be justified.
- Findings VIII: A conflict of interest exists in the payments to the relatives of the Chapter administration.
- Findings IX: Property records are incomplete and inaccurate.
- Findings X: The Chapter did not comply with the Sihasin Fund reporting requirements.
- Findings XI: Monthly financial reporting is not provided to the community membership.

We will develop and comply with the Corrective Action Plan for each of the findings. We will identify an action item, responsible party, and due dates to ensure that we will be implementing the corrective action plan for each of the findings.

Should you have any concerns or questions, direct them to Cove Chapter email or at (928) 653-5806. Thank you.


James Benally, President
Cove Chapter

xc: Lorraine Johnson-Roy, Chapter Manager
Charlotte Yazzie, Secretary/Treasurer
James Adakai, Delegated Department Manager
Elizabeth Washburn, SPPS
Chapter/File