

A Review of the Navajo Nation Capital Improvement Planning Process against Best Practices

Introduction and Background

The Office of the Auditor General (OAG) has conducted a review of the Navajo Nation Capital Improvement Planning Process in comparison with best practices. This review was requested by the Navajo Nation Council Transportation and Community Development Committee (TCDC). The purpose of the review was to compare the Nation's current process against best practices and identify areas of improvement.

In 1998, the Navajo Nation enacted the Appropriations Act to ensure the Nation designates and monitors resources based on realistic, specific and measurable purposes. Within the Appropriations Act, a capital improvement process is identified. The Act specifically states that a multi-year capital improvement plan shall be developed to guide the allocation of resources among capital projects. However, to date, a Navajo Nation multi-year capital improvement plan has yet to be developed and formally approved by the Navajo Nation Council.

The lack of a Navajo Nation capital improvement plan has raised many concerns and questions about the capital improvement planning process. Most of these concerns are continuously expressed by the Navajo Nation Council, specifically the Transportation and Community Development Committee. The Appropriations Act requires the Navajo Nation Council to adopt a capital budget in conjunction with the adoption of the annual operating budget. However, in the absence of a formal capital improvement plan, the Council has not adopted a capital budget and has been waiving the Appropriations Act to designate funds for capital projects.

Objectives, Scope and Methodologies

To conduct this review, the following objectives were established:

1. Identify the best practices for capital planning.
2. Evaluate the Navajo Nation's current process against the best practices identified.
3. Determine areas of needed improvement.
4. Identify feasible options for making improvements.

All activities related to the Navajo Nation capital improvement planning process were considered in this review.

In meeting the objectives, we performed the following procedures:

- Research for best practices on the Internet, reference books, journals and management studies. The following organizations were referenced for best practices information:
 1. Government Finance Officers Association (GFOA)
 2. National Association of State Budget Officers
 3. U.S. General Accounting Office (GAO)
- Review of relevant audit working papers from prior audits of the Capital Improvement Office to identify the Nation's capital improvement planning process.
- Review of Navajo Nation laws regarding capital planning.
- Interviews with key personnel from comparable governmental units to inquire on their capital planning process and related activities. We focused on the following governmental units:
 1. City of Albuquerque, New Mexico
 2. City of Scottsdale, Arizona
- Interviews with Navajo Nation departments involved in the capital planning process to obtain necessary information. Some of these departments were the following:
 1. Capital Improvement Office
 2. Division of Community Development
 3. Community Development Block Grant Program
 4. Design and Engineering Services Department
 5. Office of Management and Budget
 6. Office of the Controller
- Survey a sample of Navajo Nation capital project clients (i.e. chapters, programs, departments) to obtain their feedback on the Nation's capital improvement planning process.

The results of our review are presented in the following pages. The results are considered for *internal use only* by the Navajo Nation and the appropriate department(s) responsible for implementing the capital improvement planning process.

REVIEW RESULTS

Considering that the budget for capital projects makes up a majority of a government unit's annual budget, it is imperative that an efficient and effective capital improvement planning process is in place. Currently, most government units are applying methodologies and concepts found to be best practices to improve their own planning processes. The result is a better defined process wherein the participants agree on common goals and objectives to ensure the overall capital plan is well supported and funded.

In comparison to best practices and other comparable government units, the Navajo Nation capital improvement planning process needs significant improvement. Although the Nation has a process defined by the Appropriations Act, a proper capital improvement plan has yet to be developed and formally approved by the Navajo Nation Council. The Navajo Nation does not incorporate many of the practices identified as best practices in its planning process. The latest methodologies and current trends on capital planning and budgeting are not necessarily considered in the Nation's current process.

Best practices are those practices that have demonstrated better efficiency and effectiveness in service delivery and resource usage. This report provides information on some of these best practices and how other comparable government units are implementing these practices in planning and funding their capital projects. The Navajo Nation has an opportunity to improve its process by adopting these best practices where feasible to develop a plan that will adequately address the capital needs of the Navajo Nation.

For information on best practices, we relied significantly on a reference book entitled "Capital Improvement Programming: A guide for smaller governments" provided by the Government Finance Officers Association. This reference best describes the capital improvement planning process with the following eleven key elements:

1. Establish the administrative structure.
2. Establish the policy framework.
3. Develop capital project evaluation criteria.
4. Prepare a capital needs assessment.
5. Identify projects for CIP plan.
6. Undertake financial capacity analysis.
7. Evaluate funding options.
8. Evaluate and program capital projects.
9. Adopt capital plan and budget.
10. Implement and monitor capital budget.
11. Evaluate Capital Improvement Planning (CIP) process.

For this report, we applied the above key elements to assess the performance of the Navajo Nation with respect to capital improvement planning. The results of our review are presented in the following format:

Part I: This part summarizes the eleven key areas of a capital planning process as defined by best practices. Within each of these areas, we "graded" the Nation's current process against these best practices. The Nation's performance in these areas were graded as either satisfactory, satisfactory with improvement needed, or unsatisfactory.

Part II: This part provides detail information of our findings in terms of:

- a. Best practices
- b. Navajo Nation practices with areas needing improvement
- c. Recommendations

The narrative provides further clarification and illustration of how best practices can improve the Nation's process. Specific areas within the Nation's current process which need improvement were noted. The lack of improvement in these areas poses various risks to the Navajo Nation, including the lack of capital improvement plan.