



OFFICE OF THE AUDITOR GENERAL

The Navajo Nation

Internal Audit of the Baahaali Chapter

Report No. 24-02
December 2023

Performed by:
Kimberly Jake, Auditor





December 29, 2023

Lee C. Jim, President
BAAHAALI CHAPTER
P.O. Box 6118
Gallup, NM 87305

Dear Mr. Jim:

The Office of the Auditor General herewith transmits Audit Report No. 24-02, an Internal Audit of the Baahaali 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 its LGA certified five-management system. The following issues were identified:

- FINDING I: Due to various discrepancies with the Chapter accounting system, the system cannot be relied upon to provide accurate financial information.
- FINDING II: The Chapter did not comply with Procurement Policies and Procedures while procuring goods and services.
- FINDING III: Primary use of a debit card to pay for travel expenses led to circumventing of travel policies and procedures.
- FINDING IV: In the absence of proper controls, debit card purchases are questionable.
- FINDING V: Debit Card Policies need to be strengthened before further use of the card.
- FINDING VI: The Chapter does not comply with Public Employment Program Policies.
- FINDING VII: A PEP has been employed long-term and simultaneously held two part-time positions.
- FINDING VIII: The Chapter did not properly verify the eligibility of housing assistance recipients.
- FINDING IX: The Chapter did not make sure housing assistance projects were completed as intended.
- FINDING X: The Chapter was late in remitting payroll taxes to the IRS.
- FINDING XI: Personnel records are incomplete.
- FINDING XII: The Chapter uses a manual system prone to errors to record and track employee leave hours.
- FINDING XIII: The Chapter staff earned compensatory time without approval and reliable tracking.
- FINDING XIV: The Chapter Manager works an unauthorized alternative work schedule.
- FINDING XV: Background checks were not completed for employees holding sensitive positions.
- FINDING XVI: The fixed assets value reported in the balance sheet is unreliable.

- FINDING XVII: The property inventory is incomplete.
- FINDING XVIII: Identification tags are missing from property and equipment.
- FINDING XIX: Chapter equipment is assigned to staff or stored at other locations without documented approval.
- FINDING XX: Cash receipts for the Collection and Recycling Center are not adequately safeguarded.
- FINDING XXI: The last independent financial statement audit was completed for FY2019.
- FINDING XXII: Bank reconciliations were not reviewed for accuracy.
- FINDING XXIII: The filing system does not allow for easy access and retrieval of records.
- FINDING XXIV: Chapter Five Management System Manual amendments compromise internal controls, allows for inconsistencies, and increases risk for abuse and potential fraud.

Detailed explanations of the audit issues can be found in the body of the report. The audit report provides recommendations for remediation of the reported findings.

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

Sincerely,



Helen Brown, CFE, Principal Auditor
Acting Auditor General

Attachment

xc: Gerald Skeets, Sr., Vice President
David M. Emerson, Secretary/Treasurer
Gloria Skeet, Chapter Manager
Seth Damon, Council Delegate
BAAHAALI CHAPTER
Jaron Charley, Department Manager II
Guarena Adeky, Senior Programs and Projects Specialist
ADMINISTRATIVE SERVICES CENTER/DCD
Chrono

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REVIEW RESULTS

FINDING I: Due to various discrepancies with the Chapter accounting system, the system cannot be relied upon to provide accurate financial information.

Criteria: Baahaali Chapter FMS Fiscal Policies and Procedures, Section V.D., states an accounting system's primary objectives are to provide reliable and consistent financial information on a timely basis, safeguard the Chapter's assets, and provide reasonable assurance that the Chapter complies with all applicable laws and regulations. Accounting records provide the documentary support for account balances and must be properly maintained to provide financial accountability for the Chapter.

Section VI.A. states that no expenditure of Chapter funds shall be made without an approved annual budget and that no expenditures shall exceed budgeted amounts without prior approval by the Chapter membership. Section VI.D. states the Chapter administration and officials will formulate a proposed budget using the Navajo Nation OMB budget forms for all revenues it will receive or generate and all expenditures it will make.

Journal Voucher Reporting Procedures, Section II, states journal vouchers are an integral part of the audit trail and carries 1) a serial number, 2) transaction date, 3) transaction amount, 4) ledger accounts affected, 5) references to documentary evidence supporting the entry, 6) brief description of the transaction, and 7) signatures or initial of one or more authorized signatories. Section III states it is the policy of the Chapter to record all credit card transactions, deposits and electronic check transactions, reversals and corrections into the system in order to maintain accountability and transparency of transactions. All journal vouchers shall be entered on the journal voucher report form prior to being entered into the system.

Condition: The Chapter uses the MIP fund accounting software but the following discrepancies were found with the accounting system:

Budgets:

1. Detailed budgets for the Collection and Recycling Center (CRC), weaving project, and internally generated revenues totaling \$137,410 were not developed and approved by the Chapter membership.
2. Personnel fund has a deficit balance of \$68,212 that was carried over from prior years because the Chapter does not receive enough allocations from the Navajo Nation to cover personnel expenses.
3. Chapter Activities fund also has a deficit balance of \$492 because the Chapter continued to incur expenses despite insufficient funds.

Posting:

1. 51 transactions totaling \$13,222 were erroneously posted.

2. Reported fixed assets of \$2,122,686 do not reconcile to the fixed assets inventory of \$2,064,555.
3. Sales taxes collected for the CRC activities were incorrectly posted as trash collection revenue in the amount of \$54.
4. The Administrative Assistant did not record interest income totaling \$1,982 to the savings account since September 2021 until it was brought to the Chapter's attention during the audit. Posting occurred in July 2023, 22 months after the last posting.

Journal Vouchers:

1. Six correcting/adjusting entries were reviewed and none had documentation to explain the reason for the entries nor were they approved prior to posting.
2. Debit card transactions are posted as journal voucher entries in the following month after the transaction occurs rather than immediately upon expenditure of funds.
3. A comparison of posted cash on hand for the CRC activities to reported revenue revealed a variance of \$8,161. The variance was due to numerous adjusting and correcting entries made by the Administrative Assistant without support documentation and approval. As such, accurate posting cannot be determined.

Effect: Due to the discrepancies detected, there is no assurance that financial information obtained from the accounting system can be relied upon as accurate and helpful in making informed financial decisions.

- Cause:**
- The Chapter Manager does not verify the Administrative Assistant's work by reconciling posted transactions against documentation. The Administrative Assistant is the only active MIP user. The Chapter Manager relies on the Administrative Assistant to maintain the system.
 - The Chapter Manager lost her password and did not rely on her training to reset the password.
 - The Chapter Manager did not create budgets for three funds because funds generated automatically go back into the applicable fund without consideration that the community should approve how the funds will be used.
 - The allocated personnel funds are insufficient to cover actual cost, but the Chapter does not budget other funds or does not seek external funds to cover cost. Rather the Chapter is looking at the Navajo Nation to provide additional funds.
 - The journal voucher entries for the debit card and other transactions are listed on a form by the Administrative Assistant and given to the Chapter Manager and Secretary/Treasurer in the following month for approval rather than follow procedures to seek prior approval. This form is the extent of the documentation available to justify entries, but it does not clearly explain the reason or need for the entries.
 - There is no evidence of review of the bank reconciliation by the Chapter Manager so unposted interest went undetected.

- Recommendations:
1. The Chapter Manager should create budgets using Navajo Nation budget forms for all funding sources and obtain community approval before expending funds and verify the approved budget is accurately posted to the accounting system.
 2. The Chapter Manager and officials should develop a financial plan to eliminate the deficit fund balances in a timely manner and without impacting services.
 3. The Chapter Manager should immediately submit receipts for debit card transactions and the Administrative Assistant should reconcile against the approved purchase and immediately post to the accounting system. Discrepancies should be addressed with the Chapter officials.
 4. The Chapter Manager should revise the journal voucher form to document the description of the transaction, funds/accounts affected, amounts to debit or credit, and support documentation to justify entries. The Administrative Assistant should use the form and have prior approval before posting transactions.
 5. The Chapter Manager should reestablish her access to MIP and review MIP reports against support documentation to verify the accuracy of posted transactions on a weekly basis and sign MIP reports to acknowledge its accuracy.
 6. The Chapter Manager should verify interest income is timely posted to the accounting system during the bank reconciliation process and sign the reconciliation after verification.

FINDING II: The Chapter did not comply with Procurement Policies and Procedures while procuring goods and services.

Criteria: Baahaali Chapter FMS Procurement Policies and Procedures, Section IV.I., requires the Administrative Assistant to obtain two verbal quotations and document the vendor's name, individual contacted, price, date, phone number and method of contact on the quotation form for items up to \$500. For items over \$500.01 but less than \$50,000 requires three written quotations from vendors.

Section VI.B. states any member of the Chapter staff and officials may request a need to procure goods and services by submitting a Purchase Request Form which the Administrative Assistant shall review, obtain price quotations on items listed, and verify funds availability. The Administrative Assistant shall then forward all documents to the Chapter Manager who will review the price quotations for reasonableness, necessity, budget and fund compliance. Once approved, the Administrative Assistant will prepare and sign the fund approval form and submit to the Chapter Manager for approval. Thereafter, a check will be prepared with all supporting documentation for signature by the Chapter Manager. Documents will be verified by the Secretary/Treasurer before co-signing the check. Section VI.D. states for the procurement of services, the Chapter will execute a formal service contract with a purchase order.

Condition: 27 checks totaling \$10,043 were disbursed for the procurement of goods/services. We examined all 27 (100%) expenditures for compliance with procurement policies. The following discrepancies were noted:

1. 26 expenditures totaling \$9,843 were missing quotations.
2. 11 expenditures totaling \$1,997 were paid from statements instead of invoices.
3. One expenditure totaling \$200 was missing its file.
4. One expenditure for food totaling \$324 was not supported by documentation such as agendas and sign-in sheets.
5. 16 expenditures totaling \$4,612 were for recurring services including pest control services, copier machine maintenance, and septic services but there were no service agreements for such services.

Effect: The Chapter may have overpaid for goods and services. Since the Chapter did not comply with policies, there is no assurance that competitive prices were obtained, only approved purchases were received, and expenditures were justified. Any questionable expenses could result in a financial loss for the Chapter.

Cause:

- The Chapter Manager said a form was created to document the vendors they contacted for quotations, but no such form was found on file.
- Chapter management was unaware of policies that required professional service agreements when procuring professional services.
- During fieldwork, the Chapter Manager kept stating that some of these documents were on file, but could not be found, indicating a questionable records management system.
- The Chapter Manager and officials did not verify documentation complied with policies prior to signing checks.

Recommendations:

1. The Chapter Manager and officials should enforce the use of the quotation form to document the vendors contacted and quotations obtained and verify it is included in the procurement packet prior to approving fund approval forms.
2. The Chapter Manager and officials should not approve fund approval forms based on statements and should only require original invoices.
3. The Chapter Manager and officials should require procurement packets to have support documentation such as agendas, sign in sheets, receipts, etc. to demonstrate funds are used for legitimate Chapter business.
4. The Chapter Manager should obtain technical assistance from the Administrative Services Center and Department of Justice to establish professional service agreements for services.
5. The Chapter Manager should review the filing system on a quarterly basis to verify vendor files are complete and filed in the proper place to justify payments.

FINDING III: Primary use of a debit card to pay for travel expenses led to circumventing of travel policies and procedures.

Criteria:

Baahaali Chapter FMS Fiscal Policies and Procedures, Section VII.H., states only reasonable and necessary travel expenses are reimbursed. Each traveler is required to submit a trip expense report with receipts stating the accomplishments and benefits to the Chapter within 10 days of returning. Travel procedures include the following.

- The potential traveler must complete a travel request form and submit to the Administrative Assistant two days prior to travel. Upon approval, the Administrative Assistant will prepare a travel authorization form and forward it to the Chapter Manager for signature.
- Upon completion of travel, the employee or Chapter official will be required to submit a trip expense report packet (mileage report, trip report, Chapter vehicle usage form) to the Administrative Assistant.
- Once the packet is complete with the trip report, the Administrative Assistant will forward the packet to the Chapter Manager. The Chapter Manager will review all supporting documents and calculate any over or underpayment from the total estimated costs.
- Traveler will remit payment within 10 working days to the Chapter for any overpayment. If reimbursement is due, the Administrative Assistant will prepare a check to the traveler.

Condition:

Ten (100%) travel expenditures totaling \$2,012 were examined for documentation and approval. Nine of the expenditures were paid by debit card and one was paid by check. The following discrepancies were noted:

1. Nine expenditures totaling \$2,002 did not have an approved travel request form on file.
2. Eight expenditures totaling \$1,855 did not have an approved travel authorization form therefore, it could not be verified that travel was approved prior to departure or that expenses were authorized.
3. Two travel authorization forms totaling \$115 were approved after travel occurred.
4. One expenditure totaling \$10 was not on file.
5. Nine expenditures totaling \$2,002 did not have one or more of the following: a) travel expense reports, b) trip reports, c) mileage reports, d) agendas, e) sign-in sheets, or f) receipts to justify expenses.
6. Two expenditures totaling \$1,110 are for hotel expenses for a university student from California who was doing a study on solid waste services provided by Chapters and the challenges of providing these services. The Chapter Manager said there was a memorandum of agreement in place with the university but the Chapter was not able to provide a copy. Further, there was no other records such as a written report of the study by the student to substantiate the Chapter's claim. There was also no travel authorization for the student to document and approve the expenses.

7. Seven expenditures totaling \$1,653 were debit card charges made by the Chapter Manager to pay for other traveler expenses without approval.
8. Three additional travel expenditures totaling \$161 were identified in the review of debit card charges but these charges were not posted as travel expenses, instead they were posted as food or miscellaneous expenses. These expenditures were not supported by travel authorization forms, expense reports, or trip reports.

Effect: Travel expenses totaling \$2,173 are questionable. Without proper approval to travel, funds expended are unauthorized use of funds.

Cause:

- The Chapter staff circumvented travel policies since no one closely monitored their activities.
- The Chapter Manager uses the debit card without prior approval from Chapter officials.
- The Chapter officials approve debit card travel expenses after the fact but do not require travel documents to verify expenses are for legitimate Chapter business.

Recommendations:

1. The Chapter staff and officials should implement travel policies and procedures.
2. The Chapter Manager and officials should require all travelers to have a complete and approved travel authorization form prior to departure.
3. The Chapter Manager and officials should require travelers to complete expense reports, trip reports, and mileage reports after travel is completed and prior to approving reimbursement to travelers or posting debit card charges to the accounting system.
4. The Chapter Manager should obtain a report from the university student to justify travel expenses.
5. The Chapter Manager should review the expense report each month to verify travel expenses are posted to the correct GL Codes.

FINDING IV: In the absence of proper controls, debit card purchases are questionable.

Criteria: Baahaali Chapter FMS Procurement Policies and Procedures, Section VI.C., states the administrative staff will use the Purchase Card Authorization (PCA) Process to expend Chapter funds when deemed appropriate for procuring goods and services. All expenditures shall follow the Purchase Request Process. The purchase card shall be utilized when issuing a check is not efficient. Once quotations have been received the Administrative Assistant shall complete the PCA form prior to the order being placed. The Chapter Manager shall review the request and authorize/deny the use of the card. No purchases shall be made without the PCA form being complete, and signatures in place. In the case of the Chapter Manager using the card, the Chapter Secretary/Treasurer or other signatory shall approve/deny the request to use the card. All receipts must be submitted to the Administrative

Assistant for reconciliation to the bank statement and posting to the accounting system.

Section VII.B. states upon receipt of goods and/or services, the Administrative Assistant will verify that the items and quantities received are correct then will prepare a receiving report of the goods and/or services received by the Chapter and forward the receiving reports, shipping documents, invoices, etc. to the Chapter Manager. If there are any discrepancies the Chapter Manager will notify the vendor(s) immediately to arrange for a method to return the merchandise or a corrective measure to satisfy both parties.

Condition:

The Chapter has a debit card issued to the Chapter Manager for business use. The Chapter adopted a Purchase Card Policy, however the policy was deemed questionable as documented at finding V. Therefore, for audit purposes, we relied on the FMS Procurement Policies and Procedures. As such, we identified 151 debit card transactions totaling \$25,816 and 48 (32%) totaling \$8,090 were examined for compliance with Procurement Policies and Procedures. The following discrepancies were noted:

1. 42 expenditures totaling \$7,066 did not have a purchase request form on file.
2. 44 expenditures totaling \$7,410 did not have an approved purchase card authorization form prior to using the card to make a purchase. The Chapter bypassed the purchase card authorization form and instead relied on the approved purchase request form as authorization to use the card.
3. 11 expenditures totaling \$1,482 were missing quotations.
4. 11 expenditures totaling \$2,171 were missing invoices/receipts.
5. 29 expenditures totaling \$4,584 were not supported with other required documentation such as receiving reports, fuel/maintenance forms, fuel logs, travel authorization forms with supporting travel documents, or sign in sheets and agendas.
6. Nine expenditures totaling \$1,040 did not have an approved budget.
7. Three expenditures totaling \$140 had missing vendor files.
8. Three expenditures totaling \$314 incorrectly used the receiving report by completing the form when items were ordered and not when items were received.

Effect:

Debit card purchases totaling \$8,090 are questionable. There is a risk that unauthorized or personal purchases were made and that the Chapter cannot account for all items purchased.

Cause:

- It became standard practice for the Chapter Manager to use the debit card without prior approval. Chapter officials did not enforce policies but instead authorized transactions after the fact without verifying that policies were followed.

- The Administrative Assistant was unaware of some debit card charges until the bank statement was obtained in the following month. Thereafter, she would request for supporting documents from the Chapter Manager after the fact to complete a reconciliation.
- The Chapter Manager and officials did not verify all supporting documentation was attached and complied with Procurement Policies prior to signing the purchase card authorization form.

- Recommendations:
1. The Chapter Manager and officials should suspend its debit card until proper controls are established to ensure better accountability.
 2. The Administrative Assistant should complete the purchase request process, prior to making a purchase, and verify funds are available and sign and date the form prior to forwarding the packet to the Secretary/Treasurer for approval.
 3. The Chapter Manager should request the Administrative Assistant to complete the purchase card authorization form and submit it to the Secretary/Treasurer with required documentation for approval prior to using the debit card. The Secretary/Treasurer should verify the purchase has all required documents and complies with policies before approving the form.
 4. The Chapter Manager should immediately submit receipts to the Administrative Assistant.
 5. The Administrative Assistant should complete the receiving report after items and receipts are received to reconcile purchases to approved purchases and sign and date the form after verification. Unauthorized expenditures should be reported to the Chapter officials for immediate action.
 6. The Administrative Assistant should immediately post the debit card transaction to the accounting system.

FINDING V: Debit Card Policies need to be strengthened before further use of the card.

Criteria: Baahaali Chapter FMS Fiscal Policies and Procedures, Section VII.A., states internal controls shall ensure that the accounting data received is accurate and dependable, and to comply with policies and procedures, regulations, terms and conditions, assurances and certification requirements of all funding agencies and to ensure that Baahaali Chapter's assets and resources are protected against waste, fraud, and inefficiency.

Condition: The Chapter maintains a debit card through a local banking institution to purchase fuel, food, utilities, and other supplies as needed. The Chapter Manager provided a Purchase Card Policy that was adopted by the community membership in February 2016 and is included as an exhibit in the Fiscal Manual. Based on review of the policy, the following deficiencies were noted:

Missing controls:

1. Safeguarding of the debit card when not in use by restricting access, storing it in a safe, or keeping a log of all transactions.
2. Prohibiting the user from purchasing personal items, fueling personal vehicles, buying alcohol, making cash withdrawals, etc.
3. Establishing daily spending limits. Pinnacle Bank has the debit card spending limit at \$2,000 daily, but the policy does not mention whether the Chapter will follow this limit or establish a lower limit for daily use.
4. Removing card privileges for unauthorized use.
5. Steps to take in the event of missing or lost documents and receipts.
6. Requiring the use of the debit card to follow all laws and FMS manual.
7. The Purchase Card Use On Recurring Expense form is included as part of the exhibits to the policy but is not mentioned in the policy to clarify the purpose of the form.

Questionable Controls:

8. Restriction section requires the Administrative Assistant and Chapter Manager to be the only individuals allowed to use the card, but this is contradicted by allowing other staff to use the card to purchase fuel or vehicle maintenance. Either way, only the cardholder should be authorized to use the card.
9. Restriction section requires an approved purchase card purchase request form to be in place but simultaneously allows for only purchases over \$100 to be pre-approved while fuel and maintenance purchases do not need approval prior to using the card. This contradicts the FMS Procurement Policies which requires all purchases to have prior approval to make a purchase, without exception.
10. Fuel Purchases and Maintenance section does not require pre-approval of fuel and maintenance purchases, but instead allows the purchaser to bypass approval as long as receipts are submitted to the Chapter. This contradicts the FMS which requires pre-approval.
11. Fuel Purchases and Maintenance section requires the fuel receipt to indicate mileage but does not require the identification of the driver and vehicle. In addition, the driver is required to complete and submit the fuel purchase log each month but the log also does not identify the driver and vehicle or allow for explanation of purchases and signature. There's no way to determine if purchases are legitimate Chapter expenses.
12. Purchases Other Than Fuel section requires purchase approval from the Chapter Manager. However, this creates a conflict of interest since purchases are made by the Chapter Manager and the card is in her name.
13. Accountability section requires unknown purchases to be reported to the Chapter Manager, however this creates a conflict of interest since the Chapter Manager is the cardholder.
14. Accountability section identifies the Administrative Assistant as the reconciler of documents against the bank statement and the Chapter

Manager as the reviewer. However, this creates a conflict of interest since the Chapter Manager is the cardholder.

15. Accountability section allows unapproved purchases to be justified through memo with documents which contradicts FMS which requires pre-approval.
16. The Chapter includes the Purchase Card Policy in the Fiscal Manual, as well as, the Procurement Manual. However, comparison of the two copies of the policy detected differences throughout the policy which creates opportunity for inconsistencies in the administration of the card activities.

Effect: Without a detailed, effective, and enforceable policies for the Chapter's debit card, the Chapter is exposed to risks such as: a) mismanagement of the card, b) confusion and inconsistency in the administration and oversight of the card activities, c) inability to demonstrate accountability, and d) financial loss.

Cause: The Chapter did not have their Purchase Card Policy reviewed by the Administrative Services Center or Department of Justice before adopting and implementing it.

- Recommendations:**
1. The Chapter staff and officials should seek the assistance of the Administrative Services Center to help revise the policy to incorporate more detail, clarity, and consistency with the FMS.
 2. The Chapter Manager should submit the revised policy to the Department of Justice for legal review and resolve any concerns.
 3. The Chapter officials should present the revised policy to the Chapter membership for approval and enforce implementation.

FINDING VI: The Chapter does not comply with Public Employment Program Policies.

Criteria: Baahaali Chapter Public Employment Project (PEP) Policies and Procedures, Section III.B., states all projects shall be duly approved on a quarterly basis by the Chapter membership and set out in the annual budget. Section III.G. states the Chapter Manager shall develop a job description for each of its participants. Section III.O. states for each project, the Administrative Assistant shall post notice two weeks in advance that the Chapter is accepting applications by posting on the Chapter bulletin board, in public, and/or business sites within the area, announcements in the media and/or at Chapter meetings and by other means the Chapter deems appropriate.

Section V.A. states for each project, the Administrative Assistant shall complete, date and obtain signatures for the project application, personnel roster, and employment and termination notices. Section V.C. states the project application is to include: name of project, project supervisor, start and end dates, project location, total number of project days, estimated cost, number of personnel needed, project description, tasks to be

performed, resources required, monitoring requirements and alternate projects if the project is completed ahead of schedule.

Condition: Four (100%) PEP projects were identified and reviewed for compliance with policies. The following exceptions were noted:

Type of Exception	No. of Exceptions
Project is not community approved in the Chapter budget or by Chapter resolution.	2 of 4 (50%) = \$6,175
Project does not have evidence of job vacancies being advertised.	4 of 4 (100%) = \$9,563
Project does not have a project application and personnel roster.	4 of 4 (100%) = \$9,563
Project does not have completion reports.	4 of 4 (100%) = \$9,563

In addition, the Chapter used PEP funds to pay a CRC employee. Although only \$46 was paid to the employee, this action should not have been authorized since the CRC has its own budget to pay its employees. The Chapter Manager stated this was likely an error, but a Chapter resolution shows that the Chapter obtained community approval for this action.

Effect: Overall, the Chapter spent \$9,609 in PEP funds. In the absence of compliance with PEP policies, there are no clear project objectives in place when employees are hired and no basis for verifying project objectives are met, which is an inefficient use of resource. There is also a risk for questionable hiring practices, which can cause the community to distance themselves from the Chapter, thereby making it difficult for the Chapter to meet funding objectives. Lastly, there is a risk for PEP funding shortfalls.

Cause:

- The Chapter Manager acknowledged that the Chapter does not comply with policies and always relied on the Administrative Assistant to ensure all required documents are prepared and on file but never verified.
- Auditors observed that the Administrative Assistant did not know where to locate policies.
- The Administrative Assistant did not know files needed to be set up for the projects. The Administrative Assistant worked with Administrative Services Center Senior Programs and Projects Specialist to set up files after being notified by the auditor.
- The Chapter Manager claims jobs were advertised but there is no documented evidence on file.

Recommendations:

1. The Chapter Manager and Administrative Assistant should request the Administrative Services Center to provide PEP policy training.
2. The Chapter Manager and Administrative Assistant should comply with PEP policies to plan, monitor, approve, advertise positions, and report on projects.
3. The Administrative Assistant should create project files and establish and use a checklist consistent with PEP policies to verify required tasks and

documents are complete and on file. The Chapter Manager should review the checklist against documents to verify compliance with PEP policies. Both staffs should sign the checklist to acknowledge completion and review.

4. The Chapter Manager and officials should review payroll documents to verify PEP funds are not used to pay for CRC payroll.

FINDING VII: A PEP has been employed long-term and simultaneously held two part-time positions.

Criteria: Baahaali Chapter PEP Policies and Procedures, Section I.A. and C., states the purpose of PEP is to provide short-term employment and on-the-job training for Chapter residents to work on prioritized Chapter projects and provide on-the-job training to Chapter residents to obtain permanent employment with other employers. Section III.O. requires public notice of job vacancies for two weeks.

Baahaali Chapter FMS Personnel Policies and Procedures, Section VI.E., requires the Administrative Assistant to complete personnel action forms for hired employees. Section VII.A. defines temporary employment to be 90 calendar days. Temporary employment may be extended as necessary, except if a temporary employee is employed continuously for one year, the program must justify maintaining the position as temporary or budget the position as regular status.

Condition: A temporary PEP employee was continuously employed as the Custodian from August 2020 to September 2022. This practice is inconsistent with the intent of the PEP program which is to provide short-term employment and training opportunities to community members. The Chapter did not provide documentation to demonstrate the position was publicly advertised and that there were no other applicants to justify the rehiring of the same individual. Rather, the Chapter Manager got approval from the community each quarter, by chapter resolution, to continue employment which prevented job opportunities for others.

In addition, the temporary employee simultaneously held two part-time positions with the Chapter as a Custodian on Monday and Tuesday and CRC Station Attendant on Wednesday through Friday from August 2021 to September 2022. The CRC's trash compactor requires two people to operate and when one employee resigned, the Custodian was assigned to work at the CRC to continue operations and avoid closure until a new person could be hired. However, there is no evidence that the Chapter advertised the Station Attendant position. Rather, the Custodian was transitioned from a full-time to a part-time Custodian to be able to hold two part-time positions. Although policies do not prohibit an individual from holding two part-time positions, the Chapter did not properly document this action; there were no personnel action forms to reflect the employment changes and applicable approval.

Effect: Community members are not given the opportunity to gain work experience and training to improve their chances of gaining employment elsewhere. In addition, by employing the same employee without following policies gives the appearance of favoritism.

Cause:

- The Chapter Manager extended the employee because it was difficult to get local residents to apply for jobs at the Chapter, but there is no evidence that other applicants were considered. In addition, the Chapter Manager disagrees that PEP employees should have to be hired short-term and finds it unnecessary to have to train new employees, especially since the Chapter experiences high turnovers and when they hire a good employee, the Chapter does not want to let them go.
- The Chapter Manager wanted to avoid the loss of customers at the CRC and kept the temporary employee as a part-time Custodian and Station Attendant. She insists the position was advertised and relied on the Administrative Assistant to file documents, but did not verify the filing system. No job announcements were on file.

Recommendations:

1. The Chapter Manager should abide by PEP policies to employ temporary employees' short-term and thereafter publicly advertise positions to offer employment opportunities community wide and verify the Administrative Assistant keeps job advertisements on file to demonstrate public notice.
2. The Chapter Manager should require the Administrative Assistant to prepare all required personnel action forms to document changes to employment status and should not allow employees to begin employment until forms are prepared and approved.
3. The Chapter Manager should document the justification for extending temporary employment and obtain the concurrence of Chapter officials.
4. The Chapter officials should verify that Chapter staff followed policies prior to rehiring the same individuals.

FINDING VIII: The Chapter did not properly verify the eligibility of housing assistance recipients.

Criteria: Baahaali Chapter Housing Materials Assistance Program Policies and Procedures, Section V.A. and B., requires applicants to submit the following: a) housing application, b) voter registration, c) land ownership or potential ownership documents, d) homesite lease or title, e) proof the home needs repair, and f) proof the home is the primary residence. The Administrative Assistant shall make sure all documents have been properly completed, dated, and signed by the applicant.

Section VI.C. states the Administrative Assistant will process the documents with the assessment and photographs and submit to the Chapter Manager for approval. Once approved, the packet will be forwarded to the Planning Committee to be put on the agenda for community approval.

Baahaali Chapter Home Site Lease/Residential Lease Assistance Program Policies, Section 1, states the program provides financial assistance on a cost-sharing basis for applicants to have their land survey and archeological survey completed, which is a requirement for securing a certified home site/residential lease and become residents and voting members of the Baahaali community. Section 3 states the applicant must be registered with Baahaali Chapter and submit an application and pay a matching fee to the Chapter within one month of the application submission.

Condition: All four (100%) housing assistance disbursements totaling \$1,600 were examined for compliance with policies and the following exceptions were noted:

Type of Exception	No. of Exceptions
Housing application was not on file.	1 of 4 (25%) = \$100
Voter registration was not on file.	1 of 4 (25%) = \$100
Evidence the home is the primary residence was not on file.	3 of 3 (100%) = \$1,500
Assessment form to evaluate applicant was not on file.	3 of 3 (100%) = \$1,500

One of the four recipients documented in the above table was reimbursed for archaeological survey fees. However, policies do not allow reimbursements. The recipient did not submit an application for assistance and was not a registered member of the Chapter as required by policies. Since he was a longtime resident, the Chapter Manager incorrectly assumed he was a registered community member.

Effect: Housing Discretionary funds totaling \$1,600 may have been awarded to individuals who were ineligible; thus, community members with greater needs may have been overlooked.

Cause:

- The Chapter developed a checklist for applicant use and a second checklist for Chapter staff use. However, both lists are inconsistent with the policies and they were not consistently used by the staff.
- The policies do not specify the type of evidence needed to prove the applicant’s home is the primary residence. The Administrative Assistant said the Chapter Manager writes a memo to vouch for the applicant’s primary residence, but no such memo was on file.
- The Chapter Manager explained that the Administrative Assistant was responsible for verifying required documents are complete, but the Chapter Manager also did not confirm completed documents during her review process.
- The Chapter Manager reimbursed one recipient for the purpose of alleviating costs and because the community approved the recipient, the Manager did not verify the recipient complied with policies.

- Recommendations:
1. The Chapter Manager should reconcile all checklists against policies for consistency and require the Administrative Assistant to use the checklist to verify required documents and assessments are complete. The Chapter Manager should verify the accuracy of the completed checklist against documents. Both staff should sign the checklist as preparer and reviewer.
 2. The Chapter Manager and officials should clarify the housing policy to describe acceptable documents needed from applicants to determine their primary residence and justify the need for repairs.
 3. The Chapter Manager should complete the home assessment form to evaluate the needs of the applicant prior to approval for assistance.
 4. The Chapter Manager and officials should not approve reimbursements prohibited by policy.
 5. The Chapter officials should verify the staff are utilizing the checklist correctly and verify award checks are not for reimbursement of funds prior to signing checks.

FINDING IX: The Chapter did not make sure housing assistance projects were completed as intended.

Criteria: Baahaali Chapter Housing Material Assistance Program Policies and Procedures, Section VIII., states the applicant has 30 days from the time they pick up their assistance check to complete their project. In addition, the Completion Assessment form will be completed by the administrative staff.

Condition: The Chapter did not complete the Completion Assessment form to verify the completion of housing assistance projects for 3 of 3 (100%) recipients.

Effect: There is a risk that housing assistance materials awarded in the amount of \$1,500 could have been stolen, damaged or misused without the Chapter's knowledge. This would be a financial loss to the Chapter.

Cause:

- With the workload at the Chapter, the staff is unable to make site visits to recipient homes to verify the use of the materials. The Chapter Manager asked the Chapter Vice President to assist with this task but to no avail.
- The Chapter also could not go into homes during the COVID pandemic. However, two projects were for roof repairs and window replacements which would not require entering the home to verify completion. Another recipient used the funds to replace a water heater, but the Chapter did not ask the homeowner to provide pictures to confirm the new replacement.

Recommendations:

1. The Chapter Manager should schedule site visits to recipient homes to assess the completion of approved housing assistance projects and document the results on the Completion Assessment form or take

pictures of how building materials were used then document to the recipient's file.

2. The Chapter officials should review the Completion Assessment forms on a quarterly basis to verify it is completed by the Chapter Manager and initial the form as acknowledgement of review.

FINDING X: The Chapter was late in remitting payroll taxes to the IRS.

Criteria: Baahaali Chapter FMS Fiscal Policies and Procedures, Section VII.G., and Internal Revenue Service (IRS) Regulations, Publication 15 Circular E, requires payroll taxes collected during a month to be deposited to the bank by the 15th day of the following month. 941 tax forms are due the last day of the month following the end of the quarter. Noncompliance could result in penalties.

Condition: We examined 12 months of payroll tax deposits totaling \$30,700 for timely deposits. Three (25%) months totaling \$10,295 were late, anywhere from 2 to 24 days after the due date. In one instance, the IRS issued a notice to the Chapter in July 2022 stating that they were two days late in remitting payroll taxes. The notice was a courtesy reminder and penalties were waived, and the Chapter was advised to review the deposit requirements to avoid penalties in the future.

We also reviewed four quarterly 941 tax reports for accuracy and timely submission to the IRS. The report for 2nd quarter 2022 was submitted eight days after the due date. Of the four reports, the Chapter Manager only signed one, the remaining three were signed by the Administrative Assistant, although she is not an authorized signer. In December 2021, the IRS notified the Chapter a payment was received in 2020 without a tax return, which indicates prior instances of late reporting. The Chapter was informed, if a return is not submitted, they may lose the credit to their account.

Effect: Due to late reporting, the Chapter could be assessed penalties and interest that may result in unnecessary costs. These costs would likely be paid from funds that are reserved for other Chapter purposes.

Cause:

- The Chapter Manager explained the Chapter was late depositing payroll taxes during the months of June and July 2022 because the Administrative Assistant was on leave. There was no contingency plan to ensure timely payment.
- The Administrative Assistant submitted 941 tax reports to the IRS without the Chapter Manager's review and the Chapter Manager, knowing these reports were due each quarter, did not follow up with the Administrative Assistant.
- The Chapter officials do not periodically verify that quarterly 941 tax reports are submitted and taxes paid to the IRS.

- Recommendations:
1. The Chapter Manager should request training from the Administrative Services Center on how to identify payroll taxes due and remit taxes each month in the event the Administrative Assistant is absent.
 2. The Administrative Assistant should submit the 941 tax reports to the Chapter Manager for review against the payroll system and to sign the forms prior to submission to the IRS.
 3. The Chapter Manager should confirm the Administrative Assistant deposits payroll taxes each month and remits quarterly reports by the applicable due dates.
 4. The Chapter officials should review deposit receipts and verify completed 941 reports are timely submitted on a quarterly basis.

FINDING XI: Personnel records are incomplete.

Criteria: Baahaali Chapter FMS Fiscal Policies and Procedures, Section VII.G., states personnel records on each employee shall be maintained at the Chapter administration on authorized Chapter forms. These records include but are not limited to: a) Personnel Action Forms (PAF), b) Employment Application, c) W-4 Form, d) New Hire Form, and e) Parental Consent Form.

Baahaali Chapter Public Employment Project Policies and Procedures, Section IV.A., requires adult participants to be registered voters of the Chapter and not employed by another Chapter.

Baahaali Chapter Youth Employment Funds Policies and Procedures, Section V.A., states the employee shall be a legal resident of the Chapter community by verifying parent or legal guardian voter registration.

Condition: 16 (100%) personnel files were examined to verify required personnel records are on file and the following exceptions were noted:

Type of Exception	No. of Exceptions
Employment application was not on file.	3 of 16 (19%)
Voter registration was not on file.	4 of 11 (36%)
New hire form was not on file.	16 of 16 (100%)
W-4 form was not on file.	4 of 16 (25%)
Parent consent form was not on file.	3 of 4 (75%)
PAFs were not on file.	3 of 16 (19%)
PAFs to terminate employment was not on file.	11 of 12 (92%)

Since most personnel files reviewed had no PAFs to terminate employment, we examined whether the payroll system recorded these employees as inactive. Of the 16 employees, 12 employees were no longer employed with the Chapter, but the payroll system showed nine (75%) employees to still be active.

Effect: The Chapter cannot provide assurance employees were properly hired and wages are paid to legitimate employees. In addition, without PAFs to officially document the end of employment, employment status in the accounting system cannot be changed to inactive and the risk is that former employees could remain on payroll without detection.

Cause:

- The Chapter does not use the checklist established for personnel files and the checklist does not list all required records based on policies.
- The Chapter Manager stated she has not conducted a review of personnel files since 2021 because of her workload and relied on the Administrative Assistant to ensure all documents were on file.
- The Chapter Manager does not verify the Administrative Assistant properly completes personnel action forms to document the hiring, termination, or change in employment for employees.
- The Chapter Manager does not review the payroll system to verify terminated employees are recorded as inactive employees.
- The Administrative Assistant stated the new hire forms were filed in each of the employees' personnel folders but the records could not be located.

Recommendations:

1. The Administrative Assistant should immediately complete a PAF for employees upon hiring, termination, or any other change in employment and obtain all required signatures.
2. The Chapter Manager should review and approve all PAFs before employees begin employment and immediately upon termination or change in employment.
3. The Chapter Manager should reconcile the checklist to the policies for consistency and require the Administrative Assistant to use the checklist to verify all required personnel documents are complete and filed in personnel folders. The Administrative Assistant should sign the checklist as the preparer and submit the file to the Chapter Manager for review.
4. The Chapter Manager should review personnel files to reconcile the completed checklist against documents in the files for completeness and sign the checklist as the reviewer.
5. The Chapter Manager should reconcile PAFs against the MIP employee profile to verify terminated employees are recorded as inactive.

FINDING XII: The Chapter uses a manual system prone to errors to record and track employee leave hours.

Criteria: Baahaali Chapter FMS Fiscal Policies and Procedures, Section VII.G., requires the Chapter to maintain a system to account for the accrual and use of annual leave, sick leave, compensatory time, and overtime.

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

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

Condition:

The Chapter uses a manual system to track accrued and used leave hours for the Chapter Manager and Administrative Assistant. The manual system does not provide a comprehensive leave report but uses bi-weekly timesheets to record accrued leave, used leave, and available balances. Leave balances are being carried forward to the next pay period without verifying their accuracy, and although accrued leave hours were accurately recorded, hours used by employees were not.

A sample of 13 of 27 pay periods for two employees were examined and of this number, 13 pay periods had the following discrepancies that contributed to unreliable leave balances:

1. Six pay periods had work hours recorded to the timecards that did not reconcile to the timesheets; the discrepancies may be leave hours that were not recognized.
2. Seven pay periods had leave slips not recorded to the timesheets causing leave hours to go unrecognized.
3. The Administrative Assistant, at times, had work absences but did not take formal leave for the absences. Rather, she worked through lunch to make up the hours without documented pre-approval for this action.
4. The Chapter Manager consistently arrived late to work but did not take leave for the absences. Rather, she worked through lunch and after 5:00 p.m. to make up hours without documented pre-approval for this action.
5. The recorded compensatory time for the Chapter staff is not correctly calculated and balances are unreliable.
6. The Chapter Manager said that her calendar year 2023 annual leave hours were not reduced to 320 hours, the allowable carry over hours, and is overstated by approximately 80 hours as of September 2023.

Effect:

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

Cause:

- The Administrative Assistant did not use MIP to maintain the employee leave hours because when she was hired in November 2021 the manual system was already in place and she simply continued this practice.
- The Chapter Manager does not monitor the Administrative Assistant's work for accuracy.

- The Chapter staff did not realize that they should obtain approval to make up work hours.
- The Chapter Manager does not collaborate with the Administrative Assistant to ensure the correct annual leave hours are carried over to the next year.
- The Chapter Manager and officials do not review recorded leave hours against support documentation during the payroll process.

- Recommendations:
1. The Chapter staff and officials should request the Administrative Services Center to provide training on accurately recording and verifying leave hours against documentation, and work with ASC to correct leave balances.
 2. The Chapter staff should utilize the MIP payroll system to manage leave hours.
 3. The Chapter Manager should review the MIP leave reports to verify the Administrative Assistant accurately recorded leave hours. The leave reports should be reconciled to the approved timesheets each pay period.
 4. The Chapter Manager should include the leave reports as part of the payroll vouchers to allow the Chapter officials to review prior to signing payroll checks.

FINDING XIII: The Chapter staff earned compensatory time without approval and reliable tracking.

Criteria: Baahaali Chapter FMS Personnel Policies and Procedures, Section X.A., states exempt positions are managerial, professional, and administrative positions. Employees assigned to exempt positions are not eligible for paid overtime compensation, but allowed compensatory time. Section X.C. states the Chapter Manager shall notify the employee in advance that overtime is necessary and the employee is expected to work.

Section X.E. states the Chapter Manager and President will acknowledge and verify time earned with a signature using the Compensatory Time form and approve all use for compensatory leave requests by signing the Compensatory Time form and leave request form and the Administrative Assistant will update all compensatory time forms by deducting hours used at the end of each pay period.

Condition: The Chapter Manager and Administrative Assistant earned and used compensatory time. However, the following deficiencies were noted:

1. There is no written notification to employees on file informing them that overtime is necessary and they are required to work. Instead, the staff are claiming compensatory time for hours and minutes worked beyond an eight-hour work day. For example, staff claim lunch hour as a work hour which contributes to the eight-hour work day on the timesheet and

enables staff to claim one hour of compensatory time when they work with no break from 8:00 a.m. to 5:00 p.m.

2. There is also no use of the Compensatory Time form to document and authorize staff to earn compensatory time and to record hours used.
3. The Administrative Assistant uses the timesheet to monitor compensatory hours but the calculations for the compensatory time is incorrect for the Chapter Manager and Administrative Assistant. As such, there is no assurance that compensatory time earned and used by staff is reliable.
4. For 13 pay periods, the Chapter Manager used 18 hours of unauthorized compensatory time totaling \$426 and the Administrative Assistant used 26.5 hours of compensatory time totaling \$479. This amount is likely higher since the review did not look at all pay periods for the audit period.

Effect: Without approval to earn compensatory time and reliable tracking of hours, compensatory time balances are overstated for the staff. In addition, by allowing staff to claim compensatory time for the hours and minutes worked for lunch hour and beyond 5:00 p.m. creates opportunity for abuse of the overtime system.

Cause:

- The Chapter staff do not plan for the need of overtime, but instead they arbitrarily decide to work through lunch and beyond 5:00 p.m.
- The Chapter Manager does not verify recorded compensatory time earned and used for the Administrative Assistant, while the Chapter President does not do the same for the Chapter Manager. Consequently, errors went undetected.

Recommendations:

1. The Chapter staff and officials should obtain proper understanding of the compensatory time policies and procedures and consistently adhere to policies.
2. The Chapter Manager and officials should clarify policies to explain when and under what circumstances compensatory time will be considered for Chapter staff.
3. The Chapter Manager should require the use of the Compensatory Time form to authorize staff to earn compensatory time. The form should be signed by the Chapter Manager for staff and by the President for the Chapter Manager. Staff should not be allowed to claim compensatory time if it was not pre-approved.
4. The Administrative Assistant should verify that compensatory time claimed by staff is accurate and supported by documentation and the Chapter Manager should review calculated compensatory time earned and used to verify balances are correct. The Chapter President should do the same for the Chapter Manager hours.

FINDING XIV: The Chapter Manager works an unauthorized alternative work schedule.

Criteria: Baahaali Chapter FMS Personnel Policies and Procedures, Section VII.G., states the basic tour of duty for employees is 8:00 a.m. to 12:00 p.m. and from 1:00 p.m. to 5:00 p.m. on Monday through Friday. Section VII.H. states an exception to the basic tour of duty may be approved by the Chapter Manager/Chapter President upon written request from the employee. Alternative work schedules are generally dependent upon the specific working conditions and needs of the job.

Condition: Time cards show the Chapter Manager consistently arrives to work around 9:00 a.m. or 10:00 a.m., but does not take leave for these absences. Instead, the Chapter Manager works through lunch and after 5:00 p.m. and these hours are counted towards the 8-hour work day. There is no documented approval for an alternative work schedule, instead the Chapter Manager solely decides on her schedule.

Effect: An unauthorized alternative work schedule is unfair to other Chapter staff who work from 8:00 a.m. to 5:00 p.m. and have to address Chapter matters in the absence of the Chapter Manager, which hinders services to the community members.

Cause:

- The Chapter Manager states that during lunch hour the Chapter door is closed but she is still answering phones and reviewing documents and prefers to work after 5:00 since there is no interruption at this time. These hours allow for her to get things done for the Chapter.
- The Chapter President, as the direct supervisor over the Chapter Manager, knowingly approves the timesheet with missing leave slips for absent hours and does not question that the Chapter Manager is making up work hours without documented approval.

Recommendations:

1. The Chapter President should require the Chapter Manager to work the basic tour of duty from 8:00 a.m. to 5:00 p.m.
2. The Chapter Manager should submit a leave slip for any absences during the basic tour of duty.
3. The Chapter President should review the timesheets closely to verify the Chapter Manager work hours are from 8:00 p.m. to 5:00 p.m. prior to approving timesheets.

FINDING XV: Background checks were not completed for employees holding sensitive positions.

Criteria: Baahaali Chapter FMS Personnel Policies and Procedures, Section VI.G., states the Chapter Manager, in consultation with Chapter officials, shall designate sensitive positions. Sensitive positions include job responsibilities having access to or responsibility such as the following:

1. Money, receipts and/or disbursement of negotiable instruments (money, checks, property disbursements).
2. Credit data, credit account records or credit transactions.
3. Safety and security of Navajo Nation and Baahaali Chapter property.
4. Master control and key systems.
5. Confidential information, sensitive data, or critical data processing systems.

These policies apply to all employees who are regular status, seasonal, temporary, volunteers, interns and to employees who are assigned to a sensitive position. Baahaali Chapter shall not offer employment to any applicant for a sensitive position until a background check and relevancy assessment have been completed. As a condition of employment, a background check shall be conducted every three years for each employee occupying a sensitive position unless otherwise specified.

Condition:

In accordance with policies, the following positions are considered sensitive because employees hired into these positions handle or have custody of cash/checks, debit cards, property, or sensitive/confidential information. As such, these positions should have been classified as sensitive and employees hired into these positions required to obtain a background check.

1. Chapter Manager
2. Administrative Assistant
3. Office Assistant
4. Custodian
5. CRC Station Attendant Supervisor

However, none of the positions have been classified as sensitive positions nor did any of the seven employees who currently or previously held these positions obtain a background check and yet are still allowed access to cash/checks, debit cards, property, and sensitive/confidential information.

Effect:

By forgoing background checks, the Chapter is at risk of being directly liable for any theft, fraud, or unsafe conditions. This could be a financial loss to the Chapter.

Cause:

The Chapter was not aware of policies that require background checks.

Recommendations:

1. The Chapter Manager should request the Administrative Services Center to provide training to the staff and officials on background checks.
2. The Chapter Manager should evaluate each position and designate applicable positions as sensitive in accordance with policies and document this evaluation.
3. The Chapter Manager and officials should require employees hired into sensitive positions to obtain background checks and every three years thereafter.

4. The Chapter Manager should verify background checks are filed in personnel folders.

FINDING XVI: The fixed assets value reported in the balance sheet is unreliable.

Criteria: Baahaali Chapter FMS Property Policies and Procedures, Section IV.K., states that Chapter property and equipment of significant value (\$500 and over) will be capitalized and recorded in the Chapter's fixed asset accounts.

Section VII.B. requires the Chapter to record and report the Chapter's general fixed assets in its accounting records and financial statements and if the purchase price is unknown, the property item will be valued at fair market value. Section VII.C. requires the Chapter to use the straight-line method to depreciate assets and update depreciation on an annual basis.

Section VIII.B. requires the Administrative Assistant to have pertinent records and documentation of all Chapter property on file including invoices, warranties, and titles.

Condition: The Chapter uses the MIP fixed asset module to account for fixed assets and reported a total fixed assets value of \$2,122,686 in the balance sheet as of September 2022. However, this total value was deemed unreliable due to the following discrepancies:

1. Chapter policies require assets to be capitalized at \$500 however, LGA, Section 2 defines capitalized assets as an asset with a value of \$1,000 or more. In using the lower dollar threshold, the Chapter is capitalizing more assets than required by law.
2. Consistent with LGA (\$1,000 or more), we identified 38 fixed asset items totaling \$2,064,555 recorded on the property inventory, however the balance sheet reported 71 items totaling \$2,122,686, a variance of \$58,131. This is due to a combination of issues including reported assets valued under \$1,000, assets unrecorded to the property inventory, and variances in recorded value between the inventory and balance sheet.
3. 22 of 38 (58%) fixed assets totaling \$1,338,437 were reviewed and of this number, seven assets (32%) totaling \$75,855 did not have documentation including invoices, receipts, and appraisals to verify recorded values.
4. Two skid steer loaders purchased in July 2022 with a combined value of \$153,721 were not reported in the balance sheet until July 2023, after auditors informed the Administrative Assistant of the unreported assets.
5. Two Chapter buildings with an appraised value of \$557,002 are reported in the balance sheet at a value of \$474,414 (\$82,588 under reported).
6. A tool shed with a value of \$5,000 was not included on the balance sheet.
7. FY2022 depreciation expenses, which should be recorded to the accounting system at the end of the fiscal year in September 2022 was

not timely recorded until July 2023 after auditors informed the Administrative Assistant of the issue.

Effect: The balance sheet is unreliable and hinders the Chapter in making informed financial decisions.

Cause:

- The Property Policies and Procedures contradict LGA in that it allows assets to be capitalized at \$500 rather than \$1,000. The Chapter had always believed that the correct amount was \$500.
- The Chapter staff did not maintain permanent files for fixed asset records. The Chapter had to search through files and only located some of the records.
- The Administrative Assistant did not know how to report fixed assets and record depreciation to the MIP since she had not received any training. She did not seek assistance from the Administrative Services Center and MIP consultant to report fixed assets and record depreciation expenses until July 2023 after being notified by the auditor.
- The Chapter Manager is not aware of fixed assets recording and reporting procedures and referred auditors to the Administrative Services Center.
- The Chapter Manager did not routinely reconcile support documents to the inventory and balance sheet and had no knowledge of whether the balance sheet accurately reported its value.
- The Chapter officials do not review the reported fixed assets value in the balance sheet against the total report fixed assets value in the fixed asset inventory.

Recommendations:

1. The Chapter staff and officials should revise the Property Policies and Procedures capitalized asset threshold to \$1,000 and obtain approval from the Chapter membership.
2. The Administrative Assistant should seek technical assistance and training from the Administrative Services Center on how to identify fixed asset values, record values to the inventory, and post the fixed assets and depreciation to the accounting system.
3. The Administrative Assistant should update the fixed asset inventory with invoice, receipt or appraisal values and transfer these values to the balance sheet. The Chapter Manager should reconcile invoices, receipts or appraisals against the fixed asset inventory and balance sheet.
4. The Chapter Manager should require the Administrative Assistant to create files for fixed asset records to include invoices, receipts, and appraisals.
5. The Secretary/Treasurer should verify the fixed assets total reported in the balance sheet against the fixed asset inventory total.

FINDING XVII: The property inventory is incomplete.

Criteria: Baahaali Chapter FMS Property Policies and Procedures, Section IV.E., requires all property to be identified by tagging. Section VII.B. requires the

property inventory to disclose the description, purchase date, purchase price, serial number, property number, condition, location, salvage value, date of disposition, etc. Section VIII.A. requires the Chapter to conduct and maintain a complete, detailed, and accurate physical inventory of Chapter property and to reconcile annually or upon a change of the Chapter staff or officials. Section IX.B. requires the Chapter to document incidents of lost or stolen property items.

Condition: The FY2022 property inventory provided by the Chapter is missing pertinent information including property numbers, serial numbers, vehicle/heavy equipment VIN number or license plate number, location, purchase date, and condition. In addition, two property items are missing, but the Chapter did not document the missing items and take steps to replace the items through insurance or to remove the items from the inventory. The inventory also does not include the date and signature of the preparer or reviewer, so the date of the last inventory cannot be determined.

After fieldwork, the Administrative Services Center's Senior Programs and Projects Specialist provided a more comprehensive inventory that she created during her employment with the Chapter, but the inventory appears to be last updated in 2021 and there were no signatures to indicate it was reviewed for accuracy; therefore, it is deemed unreliable for audit purposes.

Effect: The Chapter cannot identify lost or stolen property items for insurance purposes. For example, property items identified as missing from the Chapter did not have property numbers and/or serial numbers documented on the inventory which will hinder the Chapter from replacing the items through insurance.

Cause:

- The annual physical inventory was performed by the Administrative Assistant however, the Chapter Manager did not review the inventory for accuracy and completeness.
- The Chapter is using the Risk Management Program insurance reporting forms as their inventory, which does not require complete information in accordance with policies, and causes pertinent information to be excluded.
- The Chapter officials are not given opportunity to review the inventory through their routine monthly monitoring and are unaware of inventory issues.

Recommendations:

1. The Administrative Assistant should complete a physical count and inspection of property and update the inventory with complete and pertinent information, on an annual basis and when new property is purchased; thereafter, sign the inventory as the preparer.
2. The Chapter Manager should review the inventory to verify its accuracy and completeness; thereafter, sign the inventory as the reviewer.
3. The Chapter Manager should include the property inventory review on the Chapter official's monitoring forms and provide the inventory to the

officials on a quarterly basis to verify that it is complete and verified by the Chapter Manager.

FINDING XVIII: Identification tags are missing from property and equipment.

Criteria: Baahaali Chapter FMS Property Policies and Procedures, Section IV.E., requires all Chapter property to be identified by tagging.

Condition: 55 of 759 (7%) property items totaling \$459,304 were examined and 49 property items were not tagged with identification numbers and could not be reconciled to the inventory.

Effect: Chapter property is at risk of being stolen without detection. This would result in a financial loss to the Chapter.

Cause:

- The Administrative Services Center's Senior Programs and Projects Specialist stated property items were tagged during the time she was employed with the Chapter and believes the tags were removed from the property items. Since there was no physical observation of property tags against the inventory by the current Chapter staff, missing tags went undetected.
- The Chapter's property inventory is missing pertinent information such as serial numbers, vehicle/heavy equipment VIN, and property numbers and had vague descriptions of property items which made it difficult to identify some items to be on Chapter premises.

Recommendations:

1. The Administrative Assistant should purchase or create pre-numbered identifications tags and affix tags to all property and record the identification numbers to the property inventory.
2. The Administrative Assistant should verify applicable identifying markers on property items such as serial numbers, model, color, property numbers, etc., are recorded to the property inventory.
3. The Chapter Manager should verify the tagging of property and accurate recording of identification numbers to the property inventory prior to signing the inventory.

FINDING XIX: Chapter equipment is assigned to staff or stored at other locations without documented approval.

Criteria: Baahaali Chapter FMS Property Policies and Procedures, Section IV.B., states an individual shall not be assigned to a duty that separates him/her from property for which he/she is responsible. Individuals may be required to assume accountability for property remotely located. In such instances, they are required to complete the Property Assignment Sheet to maintain records which show at all times the general location of such property and the individuals responsible for its care and safekeeping. Section IV.G. states all Chapter property shall be kept on Chapter premises except where it is approved by the Chapter Manager to store at another location. Property stored elsewhere shall be inventoried and documented.

Condition: During the review period, the following Chapter equipment was assigned to staff or stored off-site without documented approval:

1. Laptop assigned to Chapter temporary staff.
2. Tablet assigned to the Chapter Manager.
3. Two flatbed trailers and backhoe stored at a community member's residence.
4. Two skid steer loaders stored at the Secretary/Treasurer's residence from July 2022 to September 2022.
5. One skid steer loader is stored at the transfer station in Vanderwagen, NM.

One tablet with a value of \$800 went missing when the former Administrative Assistant resigned and said she left the tablet in her office desk rather than return it directly to the Chapter Manager. The Chapter Manager said it was never found. There was no assignment form and no process in place for the return of Chapter property.

In FY2023, after the audit period, the Chapter established a Memorandum of Agreement (MOA) with the community member for storing the two flatbed trailers and backhoe, but added additional items to store including a skid steer loader and six implements. The community member is a relative to the former Administrative Assistant. Based on review of the MOA, the following terms were deemed questionable:

1. The Chapter is bypassing procurement policies by giving maintenance responsibility of equipment to the community resident.
2. The MOA does not specify the type of maintenance authorized.
3. The MOA does not prohibit the personal use of Chapter equipment or require immediate reporting of damages or issues with the equipment.
4. The Chapter is required to provide 48-hour notice before use of the equipment which does not provide the Chapter easy access to the equipment in the event of an emergency.

Effect: Without documentation and approval, the Chapter could be challenged in holding assigned individuals accountable for property loss. This could result in a financial loss to the Chapter. In addition, there is no assurance that Chapter equipment is used only for Chapter business and not personal use.

Cause:

- The Chapter Manager does not require the use of the assignment forms to track assigned property and when they are returned to the Chapter.
- The Chapter has a warehouse located three miles from the Chapter compound which is considered unsafe to store equipment due to frequent break-ins, vandalism, and theft, which led the Chapter to identify an alternative storage location.
- A community member was selected because he is a private contractor who owns, services, and stores heavy equipment for his business and can safely store and maintain the heavy equipment in a fenced area

with lock and key. An onsite visit by the auditor confirmed there is fencing surrounding the residence.

- The Chapter Manager did not obtain Department of Justice (DOJ) review to verify the MOA is suitable and legally sufficient to protect the Chapter.

- Recommendations:
1. The Chapter Manager should complete and approve the property assignment form to document property that is assigned to staff or stored off Chapter premises and periodically verify the location of the item. The assigned individual should sign the form to acknowledge responsibility for the property item.
 2. The Chapter Manager should require the assigned individual to return property items in person to the Chapter Manager and document this action on the property assignment form to terminate the assignment and update the location of the item on the property inventory.
 3. The Chapter Manager should complete a physical inspection of assigned property on a quarterly basis to verify property items are still with the assigned individual and in good condition. This inspection should be documented.
 4. The Chapter Manager should maintain MOAs to store property at private residences and have these agreements reviewed by DOJ, while the Chapter works to identify more suitable storage options.
 5. The Chapter officials should review property assignment forms on a quarterly basis to verify they are complete, approved, and property is inspected by the Chapter Manager each quarter. The officials should sign the form after their review.

FINDING XX: Cash receipts for the Collection and Recycling Center are not adequately safeguarded.

Criteria: Baahaali Chapter FMS Fiscal Policies and Procedures, Section VII.B., states the Administrative Assistant is the designated custodian of cash receipts by Chapter resolution. Cash receipts are to be deposited (if practical) on a weekly basis, or when it reaches \$100. Prior to deposit, if there is cash totaling more than \$40, the Chapter Manager will take the cash and obtain a money order for the amount and endorse the money order immediately. Cash receipts shall be contained in a cash box and safeguarded in a safe or locked file cabinet at all times, promptly recorded, and accurately classified. The handling of all cash receipts shall be segregated so that no single staff member is in a position to collect, deposit, safeguard, and reconcile all cash receipts. The Administrative Assistant will give the Chapter Manager the cash receipt journal, cash receipt book, checks/money orders, cash, deposit tracking sheet, bank deposit slip for reconciliation and bank deposit. The Chapter Manager will ensure the deposit amount reconciles with the total cash receipts in the cash receipts journal and will initial the cash receipts journal if the amounts reconcile.

Condition: The Baahaali Chapter operates a Collection and Recycling Center in coordination with the Chichiltah Chapter in Vanderwagen, NM. It operates

three days a week from Wednesday thru Friday and employs a Station Attendant and Station Attendant Supervisor who collects cash for disposed trash and for selling coupon tickets used for trash disposal. The Supervisor is the custodian of the CRC cash receipts until it is remitted to the Chapter. In the review of the CRC cash receipt process, we noted the following deficiencies:

1. On Wednesday through Friday cash is stored in a cash box and locked in a desk at the CRC. On weekends, the Station Attendant Supervisor takes cash home and does not remit cash to the Administrative Assistant until Monday. Cash receipts are not remitted to the Chapter on a daily basis for safekeeping and immediate posting.
2. There is no documented approval for the Station Attendant Supervisor to be custodian of cash receipts for the CRC funds.
3. In the presence of the Station Attendant Supervisor, the Administrative Assistant reconciles cash to receipt tickets and records this to a cash intake form. Then the Administrative Assistant issues a cash receipt ticket to the Supervisor for the lump sum amount remitted to the Chapter.
4. The Administrative Assistant segregates the total revenue and total sales taxes and posts the lump sum amount to the revenue and payable accounts rather than posting individual cash receipt tickets. In a sample of 12 of 52 cash receipt batches posted to the accounting system, the Administrative Assistant incorrectly posted receipts in all 12 batches and underreported revenues.
5. The Chapter Manager does not make weekly cash deposits. Deposits ranged from 3 to 21 days after cash collection and deposit amounts range from \$918 to \$2,071.

Effect: The lack of adequate controls over the CRC cash receipts process creates opportunities for unreported cash receipts to go undetected, be lost, stolen, or mismanaged.

Cause:

- Since the CRC closes at 5:00 and is 10 miles away from the Chapter, there is not enough time to get the cash to the Chapter before the end of the day, but the Chapter Manager did not consider alternative procedures to improve the safeguarding of cash.
- The Administrative Assistant felt that it was too cumbersome to individually enter all cash receipt tickets issued. However, using the 12 samples of cash receipt batches reviewed shows an average of 15 tickets issued per day, which would not be considered too excessive for posting individually each day.
- The Chapter Manager does not review the accuracy of posted cash receipts and does not know cash receipts are posted in batches.
- The Chapter Manager relies on the Administrative Assistant to prepare cash for deposit but when depositing is delayed, the Chapter Manager does not require the Administrative Assistant to immediately prepare cash for deposit.

- The Chapter does not have written policies for the management of the CRC cash receipts even though cash is collected at an alternate location.

- Recommendations:
1. The Chapter Manager and officials should create policies for the management of CRC cash receipts to include, but not limited to a) custodian of cash, b) storage of cash, c) coupon ticket sales, d) remittance of cash to the Chapter, and e) reconciliation.
 2. The Chapter Manager should require the Supervisor to remit cash receipts to the Chapter on Friday of each week.
 3. The Administrative Assistant should post individual CRC cash receipt tickets to the accounting system daily.
 4. The Chapter Manager should reconcile the posted CRC cash to the cash receipt tickets for accuracy.
 5. The Administrative Assistant should prepare the cash, deposit slip, receipt tickets, posted cash report, and cash intake form and forward to the Chapter Manager for reconciliation each week prior to deposit.
 6. The Chapter Manager should sign and date the cash receipt documents after reconciliation and resolve any discrepancies immediately.
 7. The Chapter Manager should deposit the cash into the Chapter's bank account each week and return the deposit receipt to the Administrative Assistant for posting.

FINDING XXI: The last independent financial statement audit was completed for FY2019.

Criteria: Baahaali Chapter FMS Fiscal Policies and Procedures, Section VII.P., states the Chapter is to obtain an audit of its financial operations at least every two years including funds received from the Navajo Nation, State, County, and Federal sources. An exit conference should be held with the Chapter officials. The Chapter Manager and officials will provide a written response to the report which will be incorporated into the report and submitted to the funding agency and Chapter membership.

Condition: The Chapter became Local Governance Act (LGA) certified in December 2008 and consistently obtained financial audits for Fiscal Year 2010 to 2019. The Chapter's financial operations for Fiscal Year 2020 through 2022 have not yet been audited. In the years audited, specifically Fiscal Years 2010, 2011, 2014 and 2015, auditors reported findings pertaining to financial statements, payroll, PEP, housing assistance, travel, debit card transactions, journal entries, and overall missing documentation. Although the most recent FY2019 audit did not identify any findings, this internal audit found issues in all of these areas, demonstrating that prior year audit issues have not been fully resolved. There is also no evidence that audit reports are presented to the community membership.

Effect: Without independent financial audits, the Chapter cannot provide assurance its financial management system generates reliable and accurate financial

statements. In addition, unresolved audit findings hinder the Chapter from demonstrating accountability over the management of Chapter funds.

- Cause:
- The Chapter officials are not involved in the audit process and have no knowledge of prior audit findings.
 - The Chapter Manager said that audit reports were presented to the community but did not provide meeting minutes to substantiate this claim.
 - There is no system in place to track whether audit issues have been resolved. The Chapter Manager does not request the Administrative Services Center to verify audit issues have been resolved.

- Recommendations:
1. The Chapter Manager should procure for financial statement audit services from a certified public accountant.
 2. The Chapter Manager should require the audit firm to present the audit report to the staff and officials.
 3. The Chapter officials should present audit results to the Chapter membership during a Chapter meeting.
 4. The Chapter staff should develop corrective action plans to timely address all audit findings and request the Administrative Services Center to verify findings are fully resolved.
 5. The Chapter officials should monitor reported findings on a quarterly basis to verify audit findings are addressed.

FINDING XXII: Bank reconciliations were not reviewed for accuracy.

Criteria: Baahaali Chapter FMS Fiscal Policies and Procedures, Section VII.K., requires the Administrative Assistant to sign and date the bank reconciliation as the preparer and submit the reconciliation to the Chapter Manager to verify its accuracy. The reconciliation shall be completed within five days upon receipt of the bank statement.

Condition: A review of four months of bank reconciliations for the checking account and savings accounts detected the Chapter Manager is not reviewing the reconciliations for accuracy. The Administrative Assistant, as the preparer, also did not sign and date the bank reconciliations. In addition, bank statements are not consistently date stamped to acknowledge receipt. Therefore, it could not be determined if the bank reconciliations were timely completed.

Effect: Lack of timely and independent review poses a risk that errors or intentional misappropriation of cash will not be detected.

Cause: The Chapter Manager solely relies on the Administrative Assistant to ensure the reconciliation between the bank and accounting system is accurate.

Recommendations: 1. The Chapter staff should date stamp the receipt of the bank statements.

2. The Administrative Assistant should complete and sign the bank reconciliation within five days of receiving the bank statement.
3. The Chapter Manager should review the accuracy of the bank reconciliation against support documentation and sign and date the reconciliation.
4. The Chapter officials should verify the completion of the bank reconciliation and signatures of the Chapter staff during their monthly monitoring review.

FINDING XXIII: The filing system does not allow for easy access and retrieval of records.

Criteria: Baahaali Chapter FMS Record Management Policies and Procedures, Section VI.A., states it shall be the policy of the Baahaali Chapter to maintain a complete and updated permanent filing system that will enable records to be easily accessed and retrieved. Section VI.B. states the following types of filing methods will be utilized to identify each section for ease of accessibility:

1. Alphabetical – filed alphabetically
2. Geographic – filed alphabetically according to location and/or address
3. Numerical – filed by an assigned number
4. Subject – filed alphabetically according to subject
5. Chronological – filed by time or date

Section VII.B. states the Chapter Manager shall determine the classification of these records as: 1) Protected Records, 2) Essential Records, 3) Important Records, 4) Useful Information, and 5) Non-Essential Records.

Condition: The Chapter’s filing system is incomplete and in disarray. The following deficiencies were noted:

1. Missing and misfiled supporting documentation for:
 - a. Travel files
 - b. Debit Card transactions
 - c. Procurement files
 - d. Chapter resolutions
 - e. Fixed asset files
 - f. Job vacancy announcements
 - g. Personnel action forms
 - h. Personnel records
 - i. Journal Vouchers
2. Auditors observed piles of documents sitting on tables in the Chapter. Although the Chapter Manager said that these were copies of what should be maintained by the Administrative Assistant, this is uncertain due to the amount of records missing.
3. During the planning phase of the audit, staff was not able to locate and provide auditors with a copy of the FMS manual. After repeated

requests, the manual was finally provided by the Administrative Services Center.

Effect: The Chapter is unable to justify its expenditures and activities in the absence of proper and sufficient supporting documentation, and the Chapter cannot provide reasonable assurance it is accountable for its resources and assets.

Cause:

- Although the Chapter has a filing system established, there is no verification by the Chapter Manager that documents were being filed correctly.
- There was no urgency to file the piles of documents sitting on tables.

Recommendations:

1. The Chapter Manager and Administrative Assistant should adhere to the Records Management Policies and Procedures.
2. The Chapter Manager, in coordination with the administrative staff, should immediately file the records sitting on the tables.
3. The Chapter Manager should require the Administrative Assistant or Office Aide to immediately file records and verify each week that records are not sitting on desks.
4. The Chapter Manager should review the filing system once a month by selecting files and verifying all supporting documents are included in the packet. This action should be documented.

FINDING XXIV: Chapter Five Management System Manual amendments compromise internal controls, allows for inconsistencies, and increases risk for abuse and potential fraud.

Criteria: Title 26 Local Governance Act, Chapter 1, Subchapter 3, § 101. Chapter government requirements states to ensure accountability, all Chapters are required to adopt and operate under a Five Management System. Chapters shall develop policies and procedures for the Five Management System consistent with applicable Navajo Nation law.

Chapter 2, Subchapter 5, § 1004. Chapter administration requires the Chapter to enact, by resolution, plans of operation for all executive functions and administrative policies of the Chapter, including but not limited to: record keeping, accounting, personnel, payroll, property management, contracting procurement and program management. The Five Management System shall be the basis of enacting the plans of operation and administrative policies. The Chapter administration shall follow the duties and responsibilities prescribed in the plans of operation and shall comply with all administrative policies and procedures enacted by the Chapter.

Navajo Nation Department of Justice (NNDJ) memo dated April 16, 2010 states because NNDJ attorneys have cross-checked the Model Five Management System (MFMS) with existing Navajo Nation statutes, a Chapter's use of the MFMS will ensure compliance with Navajo Nation law

after certification. A Chapter may still opt to adopt and use its own unique Five Management System (FMS), however, it is NNDOJ's strict policy that if a Chapter elects to do this, it forfeits NNDOJ's review of its FMS and future legal defense of actions taken under that FMS.

Condition:

The Chapter's most recent FMS Manuals was adopted in February 2016. The Chapter adopted the standard DOJ FMS manual, but made amendments to the manual. Of the five policies, we selected the Fiscal and Procurement Policies and Procedures to review against the standard DOJ FMS manual to evaluate if effective controls remain in place after amendments were made by the Chapter. We noted the following questionable changes to the policies:

Fiscal Policies and Procedures

1. Cash Receipts Policies:

- a. Excluded the requirement for the Administrative Assistant to record Navajo Nation appropriations, grants, and donations to cash receipt tickets, which hinders proper reconciliation to bank statements and the accounting system to detect errors or theft.
- b. Excluded the requirement for documenting the reason for adjusting cash receipts when a variance or discrepancy is found, which increases the risk of unauthorized changes being made to the accounting system.

2. Cash Disbursement Policies:

- a. Excluded that no blank checks shall be signed before it is completely filled out and puts the Chapter at increased risk for fraud.
- b. Excluded the requirement for the Chapter Manager's review of each fund disbursement for necessity, reasonableness, budgetary authorization, and compliance which does not ensure the Chapter Manager is evaluating disbursements prior to approval.

3. Credit Card policies are inconsistent with the Chapter's in-house Purchase Card Policy increasing the risk for unauthorized use of the card.

4. General Fixed Assets Policies:

- a. The fixed asset capitalization threshold is at \$500 or more which contradicts LGA's threshold of \$1,000 or more.
- b. Excluded the requirement for a justification memorandum and documentation to support any adjustment to the records, which increases the risk of unauthorized and unsupported changes made to the accounting system.

5. Chart of Accounts policies excluded that only the Chapter Manager and officials will be authorized to make changes to the Chapter's chart of accounts which increases the risk of unauthorized changes being made.

Procurement Policies and Procedures

6. Fund Approval Process details the Chapter's procedures for the use of a Fund Approval Form, but is unclear if it should be used for debit card

purchases since the FMS Procurement states the Chapter will use the FAF to expend all Chapter funds.

7. Purchase Card Authorization Policy states the Chapter Manager is the cardholder and the authorized approver for use of the card, which does not allow for segregation of duties and increase the risk for unauthorized use of the card.
8. Emergency Policies:
 - a. States the Chapter President shall make the Declaration of Emergency, and funds used will be ratified at the next duly called Chapter meeting. However, Chapter lacks the authority under Title 2 and Title 26 to declare a State of Emergency. Per DOJ Memo issued in January 2019, under Navajo Nation Law only the Commission on Emergency Management, with the concurrence of the Navajo Nation President, has authority to declare a State of Emergency affecting the Navajo Nation or any section thereof. The Chapter risk unauthorized use of emergency funds.
 - b. Excluded a threshold for the amount of emergency funds available per household for purposes of sustaining a family for a short-term period. Without a limit, it is possible one household could receive a larger portion than other households leading to unfair awarding of funds.

Effect: The amendments to the policies put the Chapter at risk of inconsistencies in Chapter operations, unauthorized actions, errors, theft or fraud.

Cause: The Chapter arbitrarily amended its FMS policies and procedures without review by the Administrative Services Center and DOJ, which does not allow for independent review of revisions to verify controls are sufficient and comply with laws.

- Recommendations:**
1. The Chapter staff and officials should seek assistance from the Administrative Services Center in updating its FMS policies and procedures to confirm effective controls are in place to protect the Chapter.
 2. The Chapter staff and officials should have any future amendments to their FMS policies reviewed by DOJ and present it to the community for adoption prior to implementation.

CONCLUSION

Due to various discrepancies with the Chapter accounting system, the system cannot be relied upon to provide accurate financial information. The Chapter did not comply with Procurement Policies and Procedures while procuring goods and services. Primary use of a debit card to pay for travel expenses led to circumventing of travel policies and procedures. In the absence of proper controls, debit card purchases are questionable. Debit Card Policies need to be strengthened before further use of the card. The Chapter does not comply with Public Employment Program Policies. A PEP has been employed long-term and simultaneously held two part-time positions. The Chapter did not properly verify the eligibility of housing assistance recipients. The Chapter did not make sure housing assistance projects were completed as intended. The Chapter was late in remitting payroll taxes to the IRS. Personnel records are incomplete. The Chapter uses a manual system prone to errors to record and track employee leave hours. The Chapter staff earned compensatory time without approval and reliable tracking. The Chapter Manager works an unauthorized alternative work schedule. Background checks were not completed for employees holding sensitive positions. The fixed assets value reported in the balance sheet is unreliable. The property inventory is incomplete. Identification tags are missing from property and equipment. Chapter equipment is assigned to staff or stored at other locations without documented approval. Cash receipts for the Collection and Recycling Center are not adequately safeguarded. The last independent financial statement audit was completed for FY2019. Bank reconciliations were not reviewed for accuracy. The filing system does not allow for easy access and retrieval of records. Chapter Five Management System Manual amendments compromise internal controls, allows for inconsistencies, and increases risk for abuse and potential fraud.

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 24 findings identified in the audit report.

As an LGA certified Chapter, the Baahaali 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. In addition, there is indication that the Chapter Manager's supervision over the Administrative Assistant's work needs to be strengthened, including supervision over the Chapter Manager's work by the Chapter officials. This is concerning as it means the Baahaali Chapter officials and Chapter Manager are not maintaining an acceptable standard for fiscal accountability and 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 Administrative Services Center take on a more active and significant role with the Baahaali Chapter operations and finances. The Administrative Services Center needs to provide close technical assistance, training, and monitoring to bring the Chapter back to an acceptable status. We also recommend that these efforts be reported to the Administrative Service Center Department Manager on a routine basis.

BACKGROUND

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

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

The local government is managed by the Chapter Manager with administrative support provided by the Administrative Assistant. Oversight is provided by the elected Chapter officials comprising of the President, Vice-President and Secretary/Treasurer. Additional oversight is provided by the Navajo Nation Division of Community Development/Administrative Services Center.

The Chapter Manager has been with the Chapter since March 2003 and the Administrative Assistant since November 2021. However, the Administrative Assistant resigned her position as of September 2023.

The Baahaali 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 Baahaali Chapter are enumerated in Title 26, Local Governance Act of the Navajo Nation Code. The Baahaali Chapter is an LGA certified Chapter since 2008.

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. Baahaali Chapter's operating budget for the review period was approximately \$964,793.

Objective, Scope, and Methodology

The Office of the Auditor General conducted an Internal Audit of the Baahaali Chapter pursuant to the authority vested in the Office of the Auditor General by Title 12 Navajo Nation Code, Chapter 1, Section 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. Reliable financial reports are generated.
2. Purchase of goods/services are approved and supported with required documents.
3. Travel expenses are supported with required documents and costs are accurately calculated.
4. Debit card purchases abide by Procurement Policies and Procedures.
5. PEP and SYE Policies and Procedures are implemented.
6. Housing assistance is awarded to eligible recipients and verified to be complete.
7. Chapter's payroll taxes are accurately reported and timely paid.
8. Personnel records are on file to support the hiring of employees.
9. Accrued and used leave is accurately recorded and reconciled to leave reports.
10. Fixed asset values are supported with records and is accurately reported in the balance sheet.
11. Property inventory is complete and property are tagged.
12. Cash receipts are safeguarded, accurately posted, deposited in a timely matter, and sales taxes are accurately calculated.
13. Financial statement audits are completed biennially.
14. Chapter records are safeguarded and adequately maintained.
15. Five Management System policies and procedures, and in-house policies are consistent with Navajo Nation policies and laws.

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, payroll, accrued/used leave, bank reconciliations, PEP, journal vouchers, personnel, travel, cash receipts, fixed assets 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 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 Baahaali Chapter administration and Officials for their cooperation and assistance throughout the audit.

CLIENT RESPONSE



Bááhááí Chapter
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<http://baahaali.navajochapters.org>

Lee C. Jim, Chapter President
 Gerald Skeets, Sr., Chapter Vice President
 David M. Emerson, Chapter Secretary/Treasurer
 Emery Chee, Land Board Member
 Seth Damon, Council Delegate

Gloria M. Skeet, Chapter Manager

VACANT, Administrative Assistant

19 December 2023

Office of the Auditor General
 The Navajo Nation
ATTN: Helen Brown, Principal Auditor
 P.O. Box 708
 Window Rock, AZ 86515

RE: Response to the Final Draft of the Bááhááí Chapter Internal Audit

Dear Ms. Brown:

The Bááhááí Chapter has received and reviewed the final draft of the Internal Audit of Bááhááí Chapter on December 15, 2023. We agree with the audit findings and will formally begin the process of the Corrective Action Plan based on the recommendations made by your office.

Bááhááí Chapter is pleased to report that we have completed corrective actions on the following Findings:

- **FINDING VIII: The Chapter did not properly verify the eligibility of housing assistance recipients.**
- **FINDING IX: The Chapter did not make sure housing assistance projects were completed as intended.**
- **FINDING XVII: The property inventory is incomplete.**
- **FINDING XVIII: Identification Tags are missing from property and equipment.**

While these completed corrective actions represent 20% of the total findings, Baahaali Chapter is committed to correcting 100% of these findings and working closely with the Baca/Gallup Administrative Service Center to ensure, as a Local Governance Act Certified Chapter, we remain in good standing with the implementation of the Five Management System.

Sincerely,



Gloria M. Skeet, CM

CONCURRENCE:  , Lee C. Jim, President

XC: Honorable Seth Damon, Council Delegate
 Arbin Mitchell, Executive Director, DCD
 Guarena Adeky, SPPS, Gallup/Baca ASC
 Jiron M. Charley, Department Manager II, DCD - ASC

