

OFFICE OF THE AUDITOR GENERAL

The Navajo Nation

A Follow-Up Review of the Crownpoint Chapter Local Governance Act (LGA) Certification Review

**Report No. 24-03
January 2024**

**Performed by:
Danielle Allison, Associate Auditor
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January 30, 2024

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

Dear Ms. Capitan:

The Office of the Auditor General herewith transmit audit report no. 24-03, a Follow-up Review of the Crownpoint Chapter Local Governance Act (LGA) Certification Review. The purpose of the review was to determine whether Crownpoint Chapter has met the objectives of a five-management system per LGA as defined by 26 N.N.C. A five-management stem comprises of fiscal, procurement, personnel, property, and records management.

BACKGROUND

In December 2022, the Office of the Auditor General performed an LGA Certification Review of the Crownpoint Chapter Five Management System (FMS) and issued audit report no. 23-03.

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

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

Due to weaknesses found within the Chapter's FMS, the Auditor General issued a six-month extension to the Crownpoint Chapter to address the internal control deficiencies. Thereafter, the Auditor General would conduct a follow-up review to determine the status of the Chapter's progress and make a formal recommendation.

FOLLOW-UP REVIEW OBJECTIVE AND SCOPE

The follow-up LGA review covers activities for the six-month period of April 1, 2023 to September 30, 2023. Our review included obtaining an understanding of the internal control policies and procedures established by the Chapter's FMS, evaluating the design effectiveness of the internal control procedures, determining whether such procedures have been placed in operation, and any other procedures we consider necessary to form a conclusion on whether the Crownpoint Chapter has met the objectives of the FMS. Specifically, we evaluated the Chapter's achievement of its FMS objectives in the areas of financial reporting, safeguarding of assets and compliance with laws and regulations.

FOLLOW-UP REVIEW RESULTS

Our review has determined that material weaknesses still exist within the Crownpoint Chapter's five management system. The attached exhibit summarizes our follow-up review results. In the event material weaknesses are found with an FMS, the Office of the Auditor General cannot issue a favorable recommendation for LGA Certification until the deficiencies are reasonably resolved by the Chapter.

Therefore, at this time, the Auditor General cannot recommend the Crownpoint Chapter for LGA certification.


CONCLUSION

Although the Crownpoint Chapter has established the basic foundation for a FMS, the implementation of this system is hampered by various internal control deficiencies. These deficiencies do not allow the Chapter to provide reasonable assurance for proper accountability and fiscal responsibility over Chapter operations and activities.

The Office of the Auditor General recognizes the importance of this LGA certification initiative by the Crownpoint Chapter and would like to see the Chapter succeed with this important endeavor. The Crownpoint Chapter is advised to continue addressing the reported deficiencies and once completed, the Chapter should request for another LGA review which will entail a new audit scope and comprehensive review.

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

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

Sincerely,

Helen Brown, CFE
Acting Auditor General

Attachment

xc: Leonard Perry, Vice-President
Helen Murphy, Secretary/Treasurer
Aaron Edsitty, Community Services Coordinator
Danny Simpson, Council Delegate
CROWNPOINT CHAPTER
Jaron Charley, Department Manager II
Tyrone J. Begay, Crownpoint Senior Programs and Projects Specialist
ADMINISTRATIVE SERVICE CENTER/DCD
Chrono

REVIEW RESULTS
 Crownpoint Chapter LGA Certification Follow-up Review

◆ 2023 STATUS	<p>Incomplete financial statements are reported to community members. RESOLVED</p> <p>In the initial review, fixed assets were omitted from the financial statement; as a result, the Chapter was not providing a true financial picture of the financial status to the community membership. For this review, the Chapter prepared complete financial statements including two versions of the balance sheet wherein one version includes the fixed assets and the other omits the fixed assets. The Community Services Coordinator (CSC) stated the two versions of the balance sheet helps the community membership understand the fund balances in the chapter’s bank account.</p> <p>In addition to presenting the reports at the chapter meetings, the financial reports are posted on the chapter’s bulletin board and the community membership is provided copies during the regular chapter meetings.</p> <p>It is understandable how the chapter administration is considering reporting alternatives to ensure financial transparency but the current practice is inefficient and could create confusion for other reporting agencies. Per the CSC, the Chapter had yet to receive technical assistance from the Administrative Service Center on how to best explain the financial information to the Chapter community members. As of this review, the finding of incomplete financial statements is deemed reasonably resolved but the Chapter is advised to proceed with the proper version of the balance sheet for reporting purposes.</p>
◆ 2023 STATUS	<p>Work hours for temporary employees were not clearly defined. RESOLVED</p> <p>For the six-month review period, a sample of four temporary employees’ payroll expenditures totaling \$2,355 were examined. For these four employees, the leave hours were not recorded on the timesheet. Rather, the Chapter uses leave forms to document work absences by employees. The employee work hours are documented on the timesheet and reconciled to each employee’s timecard, leave forms, and weekly reports.</p> <p>Overall, the Chapter has made reasonable improvements to ensure employee work hours are documented and approved on the timesheets. Accordingly, this finding is deemed resolved.</p>
◆ 2023 STATUS	<p>The Chapter did not comply with Public Employment Program (PEP) Policies and Procedures. RESOLVED</p> <p>For the review period, there were three PEP projects: Heavy Equipment Operator/Maintenance, Office Specialist and Trash Transfer Station Attendant. For each project, the Chapter approved applicable budgets, created project applications for each PEP project, and made sure training plans are documented on project applications. Therefore, the finding of noncompliance with Public Employment Program policies and procedures has been reasonably resolved.</p>
◆ 2023 STATUS	<p>Professional services totaling \$32,359 were rendered without professional service agreements. NOT RESOLVED</p>

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For the review period, a total of \$1,856 was posted as contractual service expenditures. Accounting records revealed the expenditures were for a) replenishing medical supplies and b) xerox purchases and maintenance services. For these contractual services, the following deficiencies were identified:

- Standard Department of Justice professional service agreement was not used.
- Request for Proposal was not prepared and advertised.
- Quotations were not on file.
- Purchase and Maintenance agreement for Xerox was not reviewed by Department of Justice and was signed by the CSC.

For services rendered without a professional service agreement and legal review, there is no assurance the Chapter will be protected from potential liability for any disputes, lack of deliverables or unnecessary cost overruns. Therefore, the finding is not resolved.

♦ 2023 STATUS	Fixed assets reported in the balance sheet cannot be supported with documentation. NOT RESOLVED
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In the previous review, the Chapter could not substantiate the depreciation values for the fixed assets, and fixed assets recorded in the accounting system could not be reconciled against the property inventory. For this review, there are still deficiencies with the reporting of fixed assets and their depreciation values:

- A warehouse roller door valued at \$1,000 was not entered into the accounting system as a fixed asset.
- The 10-year recorded useful life of two Chapter buildings did not reconcile to the Internal Revenue Service (IRS) depreciation schedule used by the CSC. The buildings were also classified as single-purpose agricultural and horticultural structures but these buildings are not used by the Chapter for such purposes.
- Five laptops were classified with the useful life of 36 months each, however the IRS depreciation schedule indicates such computers having a useful life of six years or 72 months.
- 420 Backhoe loader and Tandem Gooseneck trailer were both classified for 96 months however could not determine how the IRS depreciation schedule was applied.
- The gas range at Head start was recorded with a useful life of 72 months but this is less than the 10 years noted on the IRS depreciation schedule for commercial and home appliance.

Since the Chapter cannot justify its property depreciation, there is the risk that the financial reporting of fixed assets is inaccurate thus misrepresenting the Chapter's financial position. Therefore, the finding is not fully resolved.

♦ 2023 STATUS	Two Chapter funds have deficit balances totaling \$44,294. NOT RESOLVED
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In the prior review, the Chapter reported deficit balances for the Chapter Activity Fund and Emergency Fund. As of fiscal year 2023, the Chapter continues to show deficit balances for these funds as follows:

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- The Chapter Activities Fund had a carryover deficit balance of \$22,012 however the Chapter used revenues collected from user fees, rentals, and trash disposal to reduce the deficit to \$19,071 as of September 30, 2023.
- The Emergency Fund had a carryover deficit balance of \$23,012 during the initial review in 2021 but as of September 2023, the deficit balance was reduced to \$2,613 based on a supplemental allocation received from the Navajo Nation.
- Between April to September 2023, the Chapter incurred Emergency Fund expenditures totaling \$2,524 as follows:
 - Fuel reimbursement and heavy equipment operation to a PEP worker totaling \$65.
 - Payment for Navajo Nation workers compensation, New Mexico Workforce Solutions, and IRS 941 payments totaling \$6.
 - Diesel fuel and propane purchases for community members totaling \$1,623.
 - One payment to Navajo Tribal Utility Authority for water invoice totaling \$830.

Despite the Emergency Fund deficit balance, the Chapter continued to incur expenditures with these funds. The Chapter President explained the Emergency Fund deficit occurred while the Chapter was responding to the COVID pandemic within their community. During the prior review, the Chapter stated the Federal Emergency Management Agency (FEMA) would reimburse the Chapter for emergency related expenses so the Chapter expended more than its budget. However, the Chapter has not received a FEMA reimbursement to date and it is unclear if the Chapter will still be reimbursed.

Overall, the deficit balances are an indication that the Chapter continues to expend funds beyond budget limits. The Chapter is likely using other funds to cover these deficit balances and this poses a risk that restricted funds are used for disallowed purposes. Therefore, the finding remains unresolved.

 2023 STATUS	Transactions are not correctly posted in the accounting system. NOT RESOLVED
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- The Chapter’s accounting system and records revealed the following discrepancies:
- There was no Chapter resolution approving the Navajo Nation allocations for Sales Tax of \$11,089 and Unhealthy Food Tax of \$2,562.
 - Supplemental funding for Summer Youth Funds in the amount of \$36,946 received on August 23, 2022 was posted until September 7, 2023 in the accounting system.
 - Three checks received from Littlewater Chapter as reimbursement for diesel fuel totaling \$430 and check not used for propane assistance totaling \$75 have not been posted to Emergency Fund.
 - Cash receipts posting errors were not detected because cash receipts were not reconciled with the accounting system.

A reversal of roles and responsibilities between the Accounts Maintenance Specialist (AMS) and CSC has resulted in cash receipt posting errors that were not detected in a timely manner. Both the CSC and AMS input cash receipts into the accounting system and the AMS becomes the reviewer of the CSC’s data entries. This practice does not ensure these duties are properly segregated. The Chapter President and Secretary/Treasurer could improve their monitoring of chapter administration activities to ensure they are: 1) expending Chapter funds according to

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Navajo Nation policies, 2) monitoring the accounting system for accountability of all funds and expenditures and 3) complying with budgetary policies according to the Chapter's Five Management System.

The Chapter spent funds without an approved budget resulting in unauthorized expenditures, and posting errors with revenues has resulted in unreliable financial reporting to community membership. The finding has not been resolved.

◆ 2023 STATUS	The Chapter does not fully comply with Procurement Policies and Procedures. NOT RESOLVED
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The prior report indicated the Chapter did not utilize purchase requisitions, obtain quotations, inspect goods and services received, and provide sufficient support of disbursements. For this review, we sampled 10 operating expenditures totaling \$5,681 and found:

- Although Procurement policies and procedures require the use of purchase requisitions to document purchase requests and their approval, such requisitions are still not being prepared by the chapter staff. Rather, the Chapter uses the fund approval forms (FAF) to document the purchase items, description, price of item, name of vendor, total cost, available funds, and individuals that are authorizing and approving the purchase.
- The Disbursement policies and procedures requires the use of the FAF to prepare checks to pay for goods/services received by the chapter. Considering this, the Chapter is using the FAF for procurement and disbursement purposes, thus confusing authorizations and support documentation.
- The Chapter continues to pay for portable restrooms since 2012 and trash bin rentals since 2018 using the same vendors. No quotations were obtained to explore competitive prices with other vendors providing similar services.
- The AMS and CSC are now inspecting of goods and services when they are received.

Overall, the Chapter needs to improve its procurement practices to ensure compliance with applicable policies and procedures and more important, to make sure the Chapter is obtaining goods and services at the best possible prices. The finding has not been resolved.

◆ 2023 STATUS	Temporary employees were hired contrary to Personnel Policies. NOT RESOLVED
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In the initial review, the Chapter allowed current PEP employees to continue in temporary positions if they were deemed still qualified for their positions or remained suitable candidates to continue employment with the Chapter. Therefore, the CSC did not recruit and interview new candidates for PEP employment.

For the current review, records showed the Chapter advertises vacant positions for 10 business days. The AMS verifies applicants have all required documentation and the CSC completes the assessment, interviews and selection of applicants. Despite a recommendation for the CSC to convene an interview panel and document the results of the interviews, the CSC solely conducts interviews and makes the selections. The following discrepancies were found with this practice:

- Two PEP employees (Office Assistant and Trash Attendant) continue to be employed since 2022 without a layoff period.
- List of all applicants who applied for the positions was not provided.

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- No interview panel was established.
- No concurrence by an official for the interview results and selected applicants. The CSC stated officials are invited to the interviews but there was no documentation such as emails or memorandums to substantiate this statement.

The finding has yet to be fully resolved and by rehiring the same individuals does not facilitate an opportunity for other community members to benefit from the Public Employment Program.

♦ 2023 STATUS	Travel documents are incomplete. NOT RESOLVED
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For the review period, nine travel expenditures were examined and the attached supporting documentation had the following discrepancies:

Type of Exceptions	No. of Exceptions
Travel Authorization Form was not prepared prior to travel.	1 of 9 (11%) = \$320
Travel Authorization Form was not approved prior to commencement of travel.	1 of 9 (11%) = \$320
Travelers were overpaid for mileage reimbursements.	3 of 9 (33%) = \$493

Per a memorandum dated March 22, 2023, the Department of Agriculture requested the Chapter to provide travel assistance for the Land Board member who represents Crownpoint Chapter. A travel request was prepared and approved after the fact on April 3, 2023. In addition, the Land Board member was overpaid totaling \$33 for per diem and was an error acknowledged by the chapter administration; the Land Board member was not required to reimburse the Chapter.

Furthermore, the CSC received mileage reimbursement of \$411 when utilizing the chapter-owned truck for travel to Gallup, New Mexico. Since the chapter staff used a chapter government vehicle rather than a personal vehicle, the staff was not entitled to reimbursement. Therefore, the mileage reimbursement is contrary to travel policy and a disallowed cost.

The Chapter cannot provide reasonable assurance that travel requests were properly approved before travel commenced and only authorized travel expenses were incurred. Therefore, the finding is not resolved.

♦ 2023 STATUS	Inadequate assessments and conflicting policies contribute to incomplete housing projects. NOT RESOLVED
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For the review period, three housing assistance totaling \$2,137 were examined for compliance with policies and the following were:

- One recipient did not have before and after pictures on file for the housing project.
- Two housing projects for window installment were not confirmed by the Chapter as completed within the 30-40 day requirement.
- One housing project had yet to install the window materials due to lack of labor.

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The CSC explained a labor assistance form is attached to the housing application and the labor request is at the discretion of the applicant. However, housing projects are not completed within the 30-40 day requirement due to labor which continues to be the hindrance to completing housing projects.

Overall, the risk that unused building materials could be stolen or damaged resulting in a financial loss to the Chapter remains. The finding is not resolved.

◆ 2023 STATUS	Property inventory is not maintained in accordance with policies. NOT RESOLVED
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In the initial review, the CSC conducted the annual physical count and updated the property inventory. For this review, no changes were noted with the property inventory as the following was noted:

- The comprehensive property inventory has not been finalized since the CSC is currently re-tagging property items and identify those that may need to be removed from the inventory.
- Property inventory is missing pertinent information such as acquisition cost, date acquired, condition, last inventory, and date of disposition.
- There is no independent reviewer such as the Chapter Officials or the Administrative Service Center to monitor and verify all property items are recorded, and inventory records are complete and accurate.

The Chapter still needs to better segregate duties over property activities, assigning new identification tags to new property, and providing pertinent information for all property. Therefore, this finding remains unresolved.