



OFFICE OF THE AUDITOR GENERAL

The Navajo Nation

A 2nd Follow-Up Review of the Hardrock Chapter Corrective Action Plan Implementation

**Report No. 24-04
March 2024**

**Performed by:
Danielle Allison, Associate Auditor
Beverly Tom, Senior Auditor**





March 29, 2024

Jay Begay Jr., President
HARDROCK CHAPTER
P.O. Box 20
Kykotsmovi, Arizona 86039

Dear Mr. Begay:

The Office of the Auditor General herewith transmits audit report no. 24-04, a 2nd Follow-up Review of the Hardrock Chapter Corrective Action Plan Implementation.

BACKGROUND

In 2018, the Office of the Auditor General performed a Special Review of the Hardrock Chapter and issued audit report 18-23. A corrective action plan (CAP) was developed by the Hardrock Chapter in response to the audit. The audit report and CAP were approved by the Budget and Finance Committee on October 22, 2018 per resolution no. BFO-40-18.

In 2020, a follow-up review determined the Chapter did not fully implement the CAP. Of the 39 total corrective measures, the Chapter did not implement 56% of the corrective measures. The Office of the Auditor General recommended sanctions be imposed on the Hardrock Chapter and officials in accordance with 12 N.N.C. Section 9 (B) and (C). However, on November 16, 2021, the Budget and Finance Committee tabled the legislation and requested the Auditor General to perform another review after six months. However, due to chapter staff vacancies, no further action was taken until now.

OBJECTIVE AND SCOPE

The objective of the 2nd follow-up review is to determine whether the Hardrock Chapter fully implemented its corrective action plan based on a six-month review period of June 1, 2023 to November 30, 2023. The scope may have been expanded prior to June 2023 if no transactions were found to verify the implementation of applicable corrective measures.

SUMMARY

Of the 25 outstanding corrective measures, the Hardrock Chapter implemented 11 (44%) corrective measures, leaving 14 (56%) not fully implemented. See Exhibit A for the details of our review results.

CONCLUSION

Although more corrective measures were implemented as of the 2nd follow-up review, six of ten audit findings remain unresolved and the risks associated with these findings remain significant. Since September 2020, the Chapter had approximately three years and four months to fully implement the CAP with the assistance of the Administrative Services Center. Therefore, the Chapter had ample opportunity to address this important matter.

Section 9 of our plan of operation grants the Auditor General the authority to recommend sanctions upon a Chapter who did not fully implement its corrective action plan. Therefore, the Auditor General will revise its initial recommendation for sanction to impose only Section 9 (B) which will cause ten percent (10%) of monies payable from any government fund to be withheld until the CAP is implemented. The Auditor

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General also recommends the Administrative Services Center to provide the necessary guidance and technical assistance to help the Hardrock Chapter achieve this important goal.

To minimize the impact of the sanction, the Hardrock Chapter is advised to resolve the remaining audit findings in a timely manner. We thank the Hardrock Chapter administration and officials for assisting in this 2nd follow-up review.

Sincerely,



Helen Brown, CFE, Principal Auditor
Acting Auditor General

xc: Bryon Wesley, Vice President
Lavon N. Begay, Secretary/Treasurer
Christina Howard-Coranguez, Community Service Coordinator
Germaine Simonson, Council Delegate
HARDROCK CHAPTER
Jaron Charley, Department Manager II
Edgerton Gene, Senior Program & Projects Specialist
ADMINISTRATIVE SERVICE CENTER/DCD
Chrono

REVIEW RESULTS
Hardrock Chapter Corrective Action Plan Implementation
Review Period: June 1, 2023 to November 30, 2023



Audit Issues	Total # of Corrective Measures	# of Corrective Measures Implemented	# of Corrective Measures Not Implemented	Audit Issue Resolved?	Review Details
1. Payments to relatives of the Chapter President and Accounts Maintenance Specialist totaling \$13,842 cannot be supported with documentation.	2	2	0	Yes	Attachment A
2. The Chapter's property inventory records are incomplete.	4	4	0	Yes	
3. The Chapter does not track the use of building materials.	2	1	1	Yes	
4. Complete financial reports were not provided to the community each month.	2	1	1	Yes	
5. \$19,900 in food purchases may not have been for Chapter related events and were not community approved.	4	2	2	No	Attachment B
6. The Chapter awarded housing assistance to seven applicants whose eligibility was not verified.	3	0	3	No	
7. The Chapter cannot demonstrate that the housing assistance projects are complete.	2	0	2	No	
8. Consulting services were not procured competitively.	2	0	2	No	
9. Consulting services were obtained without a service contract that was reviewed and approved by the Navajo Nation.	2	0	2	No	
10. The fixed assets value of \$138,553 that is reported in the financial statements cannot be supported with documentation.	2	1	1	No	
TOTAL:	25	11	14	4 - Yes 6 - No	

WE DEEM CORRECTIVE MEASURES: **Implemented** where the Chapter provided sufficient and appropriate evidence to support all elements of the implementation; and **Not Implemented** where evidence did not support meaningful movement towards implementation, and/or where no evidence was provided.

REVIEW RESULTS
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◆ 2024 STATUS	<p>Issue 1: Payments to relatives of the Chapter President and Accounts Maintenance Specialist totaling \$13,842 cannot be supported with documentation. RESOLVED</p> <p>For the review period, three disbursements totaling \$375 were identified as payments to the relative of the Community Services Coordinator for committee stipends. The stipend payments were supported with claim forms, meeting agenda, sign-in sheet and meeting minutes. Rather than the Community Services Coordinator, payments were requested by the Secretary/Treasurer with the approval and concurrence by the President and Vice President. Overall, the finding was reasonably resolved.</p>
◆ 2024 STATUS	<p>Issue 2: The Chapter's property inventory records are incomplete. RESOLVED</p> <p>The Underwriting Exposure Summary (UES) is used as the property inventory which is updated annually by Community Services Coordinator and submitted to Risk Management for insurance purpose. However, the UES does not contain pertinent property information such as acquisition date, current condition, last inventory and date of disposition, if applicable.</p> <p>We examined 12 property items totaling \$743,437 and all property items were tagged with property identification numbers and they were located on chapter premises. Property items are in working condition and the fixed assets were appraised by a certified appraiser in April 2022. Overall, the Chapter has improved its property inventory records but was advised to include the missing property information to the UES. Otherwise, the finding has been reasonably resolved.</p>
◆ 2024 STATUS	<p>Issue 3: The Chapter does not track the use of building materials. RESOLVED</p> <p>For the review period, there were no housing projects that required the Chapter to purchase building materials. However, the Chapter revised its Housing Discretionary Fund policies and procedures that requires an inventory control sheet to track the delivery and use of building materials for chapter projects. A housing committee was also established to ensure building material purchases are all accounted for, are reported on the inventory control sheets, and they are used for its intended purpose. Therefore, better controls are in place to track the building materials and the finding has been resolved.</p>
◆ 2024 STATUS	<p>Issue 4: Complete financial reports were not provided to the community each month. RESOLVED</p> <p>The Community Services Coordinator generated the financial statements for the Secretary/Treasurer. For the review period, we selected three months of chapter meeting and the following discrepancies were noted:</p> <ul style="list-style-type: none"> • The budget to actual financial report was not presented at the chapter meetings. • The chapter meeting minutes for August 2023 did not show any financial reporting by the Secretary/Treasurer. <p>As compensating controls, the Chapter is posting financial statements including the budget to actual report on the bulletin board for public review, and attaching the reports to the meeting minutes. Further, as of March 9, 2024, the Secretary/Treasurer has reported all financial statements to the community membership at regular meetings and copies are made available upon request by community members. The Chapter provided reasonable assurance financial reports are presented at regular chapter meetings and have implemented compensating controls to ensure the Chapter membership is adequately informed of financial activities.</p>

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 2024 STATUS	<p>Issue 5: \$19,900 in food purchases may not have been for Chapter related events and were not community approved. NOT RESOLVED</p>				
<p>For the six-month review period, we identified 17 food purchases totaling \$3,876 and selected ten disbursements totaling \$2,083 for further examination. The following discrepancies were noted:</p> <ol style="list-style-type: none"> 1. Rather than preparing receiving reports, the Community Services Coordinator check-marked food items on receipts to verify all items are accounted for. However, three receipts totaling \$343 were not marked to indicate items were actually received and disbursement checks were still signed by the Community Services Coordinator and President. 2. Two disbursements totaling \$167 was expended from the Sales Tax Fund without an approved budget by the community membership. 3. The Chapter received \$2,000 from the Navajo County to administer on behalf of the Hardrock Senior Center. The funds are to provide nutritional services for persons 60 years or older. The Senior Center expended \$1,450 for food items but there was no detailed budget that authorized the expenditures. We also questioned if purchases of cake mix, marshmallows, sodas, and baking cups totaling \$60 met the definition of nutritional and are allowable costs for the Senior Center. 4. The Unhealthy Food Tax Fund was used to purchase muffins, soda and Hawaiian sweet rolls totaling \$86. The food items were for a Summer Youth Employment Food Demonstration but the items contradict the intent of the fund which is to improve health and prevent and reduce the incidence of obesity, diabetes, and other health conditions. <p>The Chapter continues to purchase food items from different funds and for various purposes. Some of these purchases were made without approved budgets and contrary to fund restrictions resulting in questionable food expenditures. The finding remains unresolved.</p>					
 2024 STATUS	<p>Issue 6: The Chapter awarded housing assistance to seven applicants whose eligibility was not verified. NOT RESOLVED</p>				
<p>For the review period, there were no housing projects for home repairs or construction. Rather, the Chapter using Housing Discretionary Funds to assist six applicants totaling \$4,200 on a cost-share basis to purchase a wood or pellet stove for their primary residence. In addition, the Chapter allowed assistance for home site lease reimbursement at \$700.</p> <p>The Chapter developed and implemented policies and procedures for stove purchases and homesite lease assistance/reimbursement with eligibility requirements. To be eligible for a stove purchase, an applicant must:</p> <ul style="list-style-type: none"> • Complete Wood or Pellet Stove Assistance Form. • Be a registered voter. • Submit three valid quotes from vendors, commercial or private. • Maintain primary residence in the Hardrock Chapter area. • Agree to cost share with the Chapter on the stove purchase. <p>In evaluating the assistance, the following discrepancies were noted for the six wood or pellet stove purchases:</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: center;">Type of Exceptions</th> <th style="text-align: center;">No. of Exceptions</th> </tr> </thead> <tbody> <tr> <td>Recipient did not submit three quotations and provide evidence its primary home is in Hardrock Chapter area.</td> <td style="text-align: center;">6 of 6 (100%) = \$4,200</td> </tr> </tbody> </table>		Type of Exceptions	No. of Exceptions	Recipient did not submit three quotations and provide evidence its primary home is in Hardrock Chapter area.	6 of 6 (100%) = \$4,200
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	Community Services Coordinator and Chapter officials did not verify quotations were submitted and location of primary residence.	6 of 6 (100%) = \$4,200
<p>Without an Accounts Maintenance Specialist, the Community Services Coordinator was the sole person to review and approve assistance applications. There was no indication of additional help from the Chapter officials or the Administrative Services Center to ensure the Community Services Coordinator adhered to chapter policies and procedures. Therefore, the finding remains unresolved.</p>		
<p>◆ 2024 STATUS</p>	<p>Issue 7: The Chapter cannot demonstrate that the housing assistance projects are complete. NOT RESOLVED</p>	
<p>As stated previously, the Chapter's housing-related assistance was helping community members purchase wood or pellet stoves and to be reimbursed for home site lease fees; assistance totaled \$4,900.</p> <p>According to the stove purchase policies, the following are required to make sure the assistance was fulfilled for the recipients:</p> <ul style="list-style-type: none"> • Projects are closed out when recipient provides the final receipt indicating the stove is fully paid. • The wood or pellet stove is installed at the recipient's primary residence. • Stove delivery and installation are to be arranged by the recipient. <p>The following discrepancies were found:</p> <ul style="list-style-type: none"> • Two recipients provided a final receipt however there was no evidence to show the stove was actually installed at the recipient's primary residence. • Four recipients did not provide their final receipt or any type of evidence to show they received and installed their stoves. • No evidence that the chapter administration or officials made home visits to verify the recipients received their stoves. <p>Overall, the Chapter did not adhere to its own policies and procedures while administering housing-related assistance. Therefore, the Chapter cannot provide reasonable assurance that chapter resources were used as intended. The finding remains unresolved.</p>		
<p>◆ 2024 STATUS</p>	<p>Issue 8: Consulting services were not procured competitively. NOT RESOLVED</p>	
<p>In the prior review, the Chapter did not procure consulting services through a bidding process. For this review, the Chapter procured its accounting system and consultant services totaling \$2,107 via a bidding process as required by procurement policies and procedures.</p> <p>On the other hand, consulting services for the following professional services were not procured through a bidding process:</p> <ul style="list-style-type: none"> • Heating, ventilation, and air conditioning (HVAC) system repair totaling \$17,003 • Monthly maintenance and printer supply for chapter xerox machine totaling \$6,209 • Watering point maintenance totaling \$2,025 <p>The vendors who provided these services were also cited in our prior review which is an indication the Chapter continues to use the same vendors despite the requirement for competitive procurement. In the absence of competitive bids, the risk remains the Chapter did not secure the most economical prices for its consulting services which could negatively impact operating budgets. The finding remains unresolved.</p>		

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◆ 2024 STATUS	<p>Issue 9: Consulting services were obtained without a service contract that was reviewed and approved by the Navajo Nation. NOT RESOLVED</p> <p>Three vendors hired since the prior review to provide consulting services continue to provide services without a professional services contract. A fourth vendor hired to install an accounting system and provide consulting services had a contract that was reviewed and approved through the Navajo Nation review process which is required for non-certified Chapters.</p> <p>Since the Chapter continues to obtain professional services without executed contracts, the Chapter continues to expose itself to various risks. In the absence of review, especially legal review, there is no assurance that contract deliverables will be met as expected, contract costs will be controlled and any potential liabilities will be avoided. Therefore, the finding remains unresolved.</p>
◆ 2024 STATUS	<p>Issue 10: The fixed assets value of \$138,553 that is reported in the financial statements cannot be supported with documentation. NOT RESOLVED</p> <p>As of this review, the Chapter's total fixed assets is approximately \$2,883,331. This value has increased since our initial audit, and since the Chapter still has not implemented an adequate asset reporting mechanism, it is unclear if this current value is accurate.</p> <p>Based on the UES, 12 fixed assets were examined and of this number, three fixed assets valued at \$63,686 did not have documentation such as invoices or appraisals on file to support their values reported on the property inventory. In the absence of support documentation, there is a good possibility that the Chapter is either over/under stating its asset value on the financial statements and for insurance purposes. If the Chapter is inflating the value of its fixed assets, it may inadvertently be paying higher insurance costs.</p> <p>Since the prior review, the Chapter upgraded its accounting system to the MIP fund accounting system in November 2021. Although the Chapter purchased the fixed asset module as part of the new system, as of November 2023, the fixed asset module has not been installed. The Chapter is relying on the Administrative Services Center to complete the installation but they are waiting for the Accounts Maintenance Specialist to complete her probationary period and both chapter staff can receive training once the module is installed.</p> <p>Overall, in the absence of supporting documentation and the fixed assets module, there is no assurance the asset values reported in the current financial reports are accurate and reliable. There is also no assurance the Chapter is paying the correct insurance amounts. Therefore, the finding has yet to be fully resolved.</p>