



## **OFFICE OF THE AUDITOR GENERAL**

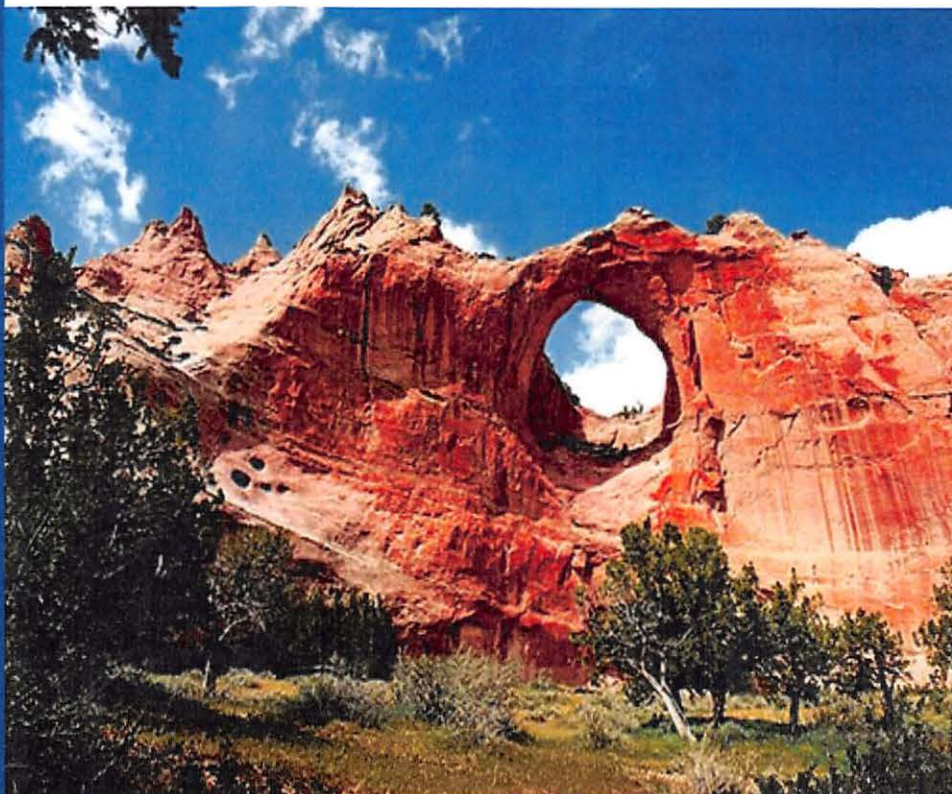
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### **The Navajo Nation**

### **Internal Audit of the Fort Defiance Chapter**

**Report No. 24-08  
June 2024**

**Performed by:  
Heinfeld, Meech & Co., P.C.**





June 21, 2024

Aaron D. Sam, President  
**FORT DEFIANCE CHAPTER**  
P.O. Box 366  
Fort Defiance, AZ 86504

Dear Mr. Sam:

The Office of the Auditor General, in conjunction with Heinfeld, Meech & Co., P.C., herewith transmits Audit Report No. 24-08, an Internal Audit of the Fort Defiance 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 December 31, 2023, our review has revealed the Chapter needs to strengthen controls with activities addressed by its five-management system. The following issues were identified:

- FINDING I: Chapter financial transactions were unsupported.  
FINDING II: Several Chapter transactions lacked proper authorization.  
FINDING III: Proper review of significant financial information was not documented.  
FINDING IV: Bank reconciliations were not performed timely or properly reviewed.  
FINDING V: The Chapter's financial audits are not current.  
FINDING VI: Required documentation related to scholarship and housing discretionary disbursements was not on file.  
FINDING VII: The Chapter utilizes fuel and fleet payment cards without established controls in place.  
FINDING VIII: The Chapter's timekeeping system could be more robust.  
FINDING IX: Performance appraisals were not conducted, and personnel files were not maintained in accordance with policy.  
FINDING X: The Chapter has not recorded asset data in MIP in recent years and purchased assets were not added to the property listing.  
FINDING XI: Cash receipts policies and procedures were not adhered to.  
FINDING XII: The Chapter began selling trash punch cards to customers prior to establishing a policy and procedures.  
FINDING XIII: Septic tank cleaning and Christmas Bazaar fees are not included on the Chapter's fee schedule.  
FINDING XIV: The Chapter did not thoroughly investigate conflicts of interest.

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: Genevieve Jackson, Vice President  
Brenda Wauneka, Secretary/Treasurer  
Lorraine Nelson, Chapter Manager  
Dr. Andy Nez, Council Delegate  
**FORT DEFIANCE CHAPTER**  
Jaron Charley, Department Manager II  
Patricia Begay, Senior Programs and Projects Specialist  
**ADMINISTRATIVE SERVICES CENTER/DCD**  
Sara Kirk, CPA, Partner  
**HEINFELD, MEECH & CO., P.C.**  
Chrono



Office of the Auditor General - The Navajo Nation  
Fort Defiance Chapter

The internal audit of Fort Defiance Chapter for the 12-month period ended December 31, 2023 was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

To meet our audit objectives, Chapter administration and officials were interviewed, data was analyzed and documents were examined. Additionally, we:

- Considered the Chapter's internal controls as outlined in the Chapter Five-Management System policies and procedures manual.
- Tested compliance with certain provisions of laws, regulations, and policies as outlined in the internal audit.

As a result of the internal audit, we noted certain matters that are opportunities for strengthening internal controls and instances of noncompliance with laws, regulations and policies. Management should address these items to ensure it fulfills its responsibility to establish and maintain adequate internal controls and comply with laws, regulations, and policies. Those items and our related recommendations are described in the accompanying summary. The items discussed in the accompanying summary are a result of audit procedures performed based on a risk based assessment, and therefore, not all deficiencies or weaknesses in controls may have been identified.

This information is intended for the Navajo Nation Auditor General's Office and is not intended to be and should not be used by anyone other than the specified party. However, this information is a matter of public record, and its distribution is not limited.

Sincerely,

*Heinfeld Meech & Co. PC*

Heinfeld, Meech & Co., P.C.  
Scottsdale, Arizona  
June 14, 2024

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# Table of Contents

	<u>Page</u>
<b>Findings and Recommendations.....</b>	<b>4</b>
Finding I: Chapter financial transactions were unsupported.....	4
Finding II: Several Chapter transactions lacked proper authorization.....	6
Finding III: Proper review of significant financial information was not documented.....	8
Finding IV: Bank reconciliations were not performed timely or properly reviewed.....	10
Finding V: The Chapter’s financial audits are not current.....	12
Finding VI: Required documentation related to scholarship and housing discretionary disbursements was not on file.....	13
Finding VII: The Chapter utilizes fuel and fleet payment cards without established controls in place.....	14
Finding VIII: The Chapter’s timekeeping system could be more robust.....	16
Finding IX: Performance appraisals were not conducted and personnel files were not maintained in accordance with policy.....	18
Finding X: The Chapter has not recorded asset data in MIP in recent years and purchased assets were not added to the property listing.....	19
Finding XI: Cash receipts policies and procedures were not adhered to.....	20
Finding XII: The Chapter began selling trash punch cards to customers prior to establishing a policy and procedures.....	22
Finding XIII: Septic tank cleaning and Christmas Bazaar fees are not included on the Chapter’s fee schedule.....	23
Finding XIV: The Chapter did not thoroughly investigate conflicts of interest.....	24
<b>Appendix.....</b>	<b>26</b>
Background.....	26
Objective.....	26
Audit Methodology.....	26
<b>Chapter Response .....</b>	<b>27</b>

## Findings and Recommendations

### **Finding I: Chapter financial transactions were unsupported.**

Criteria

The Fiscal Policies and Procedures, Section V.D.4. indicates that the Chapter must maintain all accounting records in accordance with the Fort Defiance Chapter Records Management Policy and Procedures Manual. Further, the Fiscal Policies and Procedures, Section VII.A.1., indicates the Fort Defiance Chapter administrative staff will use a two-copy receipt form to record all cash received whether by check, money order, or currency. Lastly, the Fiscal Policies and Procedures, Section VII.B.2.b. indicates that the Administrative Assistant shall ensure that the Fund Approval Form (FAF) indicates payment authorization and that all source documents (i.e., invoices, quotes, claim forms, timesheets and similar documents) support each fund disbursement before preparing a check for payment.

Condition

Supporting documentation for several audit requests were not provided and could not be located at the Chapter as follows:

Audit Area and Total Amount of Transactions Reviewed	Number of Transactions Reviewed	Missing Documentation	Amount
Cash receipts totaling \$2,172.59	25	For one cash receipt reviewed, no supporting documentation was provided.	\$ 16.36
General disbursements totaling \$26,137.69	28	For two disbursements reviewed, no supporting documentation was provided.	5,014.58
<b>TOTAL</b>			<b>\$ 5,030.94</b>

Effect

When the Chapter does not have source documentation on file, the use of Chapter funds cannot be supported. Revenue in the amount of \$16 was unsupported and expenditures in the amount of \$5,015 were unsupported.

Cause

Chapter personnel could not locate all requested supporting documents to support the cash receipt or disbursements. The unsupported receipt represented a bank account overage identified during the reconciliation process that was not identified. There was a lack of attention to detail by the Administrative Assistant, Chapter Manager, and lack of oversight from the Chapter officials. The Chapter officials signed off on Fund Approval Forms (FAF) and checks without reviewing for proper supporting documentation.



Recommendation

1. The Administrative Assistant and Chapter Manager should verify a prenumbered receipt is issued for every cash receipt collected at the Chapter. The receipts should be reconciled to every deposit and every deposit reconciled to the bank statement during the monthly reconciliation process.
2. The Administrative Assistant should not prepare a FAF or check without verifying that all supporting documentation for the disbursement is on file (invoice, receipt, etc.).
3. The Chapter Manager, Secretary/Treasurer, Vice-President or President should verify documentation prior to signing FAFs or checks (invoice, receipt, etc.).
4. The Administrative Assistant should ensure that all purchasing documents are filed and kept according to the Chapter's record keeping policies.

**Finding II: Several Chapter transactions lacked proper authorization.**

Criteria

The Procurement Manual, Section VI.C.2.c, indicates that the Chapter Manager shall review the FAF for reasonableness, necessity; fund and budget compliance and either approve or disapprove the proposed expenditures. Further, the Fiscal Policies and Procedures, Section VII.B.2.g indicates that when a check is written to a primary signatory (Fort Defiance Chapter Manager or the Secretary-Treasurer), the President or the Vice-President shall substitute as co-signor. A memorandum of justification shall be required for the substitute signatory. When there is no substitute cosigner, the primary signatory, as payee, may sign the check provided all essential documents and a memorandum of justification are attached. The Fiscal Policies and Procedures, Section V.D.3, indicates that the Fort Defiance Chapter’s accounting records provide the documentary support for account balances and must be properly maintained to provide fiscal accountability for the Fort Defiance Chapter. Accounting records include source documents, journals, registers, ledgers, and other supplementary records.

The Fiscal Policies and Procedures, Section VII.C.2.g, indicate that the Administrative Assistant shall sign and date the computation on the reconciliation. Once completed, the reconciliation, check register, validated bank deposit receipt slips, and bank statements shall be forwarded to the Fort Defiance Chapter Manager for review. Lastly, the Fiscal Policies and Procedures, Section VII.C.2.i, indicates the Fort Defiance Chapter Manager shall review the reconciliation for accuracy and completeness and return the documents to the Administrative Assistant for filing.

Condition

A sample of cash receipts, disbursements, and journal entries were reviewed, and the following was identified:

Audit Area and Total Amount of Transactions Reviewed	Number of Transactions Reviewed	Deficiency	Amount
General disbursements totaling \$26,137.69	28	For five disbursements reviewed, the check was prepared prior to the Fund Approval Form being approved by the Chapter Manager.	\$ 2,325.10
		For one disbursement reviewed, the check was written to and signed by the Chapter President and no memorandum of justification was prepared.	500.00
Journal entry selections totaling \$34,492.67	6	For all six journal entries reviewed, the journal entry was not reviewed by a person other than the preparer.	34,492.67
Cash Receipts totaling \$2,172.59	25	For one cash receipt selection, the Chapter Manager did not sign the cash reconciliation form.	1.06
<b>TOTAL</b>			<b>\$ 37,318.83</b>

Effect

Transactions totaling \$37,319 were executed without following policy. Proper authorization for expending of Chapter Funds was not documented.

Cause

The Administrative Assistant did not verify necessary approvals were received and documented prior to initiating transactions. The Chapter Manager and Chapter officials neglected to thoroughly review documentation to ensure it was complete and authorized prior to signing checks. The Chapter lacked policies and procedures regarding the review and approval of adjusting journal entries. There was an oversight by the Chapter Manager to sign off on the cash receipt form as evidence of review. Chapter officials failed to note the unsigned form during their review.

Recommendation

1. The Administrative Assistant, Chapter Manager, as well as the Chapter officials should refamiliarize themselves with Chapter procedures to verify steps are taken to properly review and approve Chapter receipt and disbursement transactions.
2. The Chapter officials should notify the Chapter Manager of cash receipt documentation deficiencies.
3. The Administrative Assistant should not execute employee or vendor payment transactions without obtaining the required approvals.
4. Chapter officials and Chapter Manager should not sign checks without ensuring the required approval documentation is present.
5. Chapter officials should refrain from signing checks written to themselves without the proper justification documentation.
6. The Chapter Manager should develop policies and procedures related to adjusting journal entries. Department of Justice review should be requested. After the review, the policies can be presented to the community for approval.



**Finding III: Proper review of significant financial information was not documented.**

Criteria

The Fiscal Policies and Procedures, Section VII.L.1 indicates the Chapter shall generate the following basic financial statements and accounting records on the Chapter's financial position and results of operations on a monthly basis in the following areas:

Financial statements:

- Statement of Revenues, Expenditures and Fund Balances
- Balance Sheet
- Statement of Revenues, Expenditures and Fund Balances - Budget and Actual

Additionally, the Fiscal Policies and Procedures, Section VII.L.2 indicates the Fort Defiance Chapter Manager shall prepare monthly financial statements and the Secretary/Treasurer shall present it to the community at the Chapter meeting. Further, the Fiscal Policies and Procedures, Section IV.C.1 indicates the Fort Defiance Chapter Secretary/Treasurer shall monitor the maintenance of an adequate accounting system to ensure the accountability of all funds and expenditures and shall report to the Fort Defiance membership. Lastly, the Fiscal Policies and Procedures, Section II.B indicates the Chapter Officials, Fort Defiance Chapter Manager, and the Administrative Assistant will monitor the financial management system to ensure financial records are maintained and Section IV.C.3 indicates the Fort Defiance Chapter Secretary/Treasurer shall consult with other Fort Defiance Chapter Officials to ensure that the administrative personnel prepare all financial reports and accounting records by fund source categories.

Condition

The following was noted during our review of Chapter financial reporting:

1. The presentation of the August 2023 and October 2023 financial statements were postponed to a subsequent board meeting. There was no indication the financial statements were approved in a subsequent meeting by the Chapter based on the review of meeting minutes.
2. Monthly checklists for the months of January 2023, July 2023, August 2023, September 2023, and December 2023 were not signed by Chapter officials as documentation of the review process.
3. Negative liabilities were noted on the Balance Sheet as of December 31, 2023 as follows:
  - a. \$0.01 in Federal Income Tax Withheld in the PEP fund.
  - b. \$62 in FICA Tax Payable in the Chapter Activities General Fund.
  - c. \$14.48 in Medicare Tax Payable in the Chapter Activities General Fund.
  - d. \$1.52 in SUTA Tax Payable in the Navajo Nation General Fund.
  - e. \$6.33 in SUTA Tax Payable in the Summer Youth Fund.
  - f. \$8,400.48 in Health Insurance Payable in the Navajo Nation General Fund.
  - g. \$21.97 in Workmen's Compensation Payable in the Emergency Fund.

Effect

Financial information was not communicated by the Chapter administration and officials to the community as required, which impacts their ability to make informed decisions. A lack of transparency can impact the public's trust in the Chapter and in the officials and management. Further, reporting to internal and external stakeholders of the Chapter may not contain accurate information.

Cause

A lack of oversight and review by the Chapter Manager and Chapter officials, accompanied by the unexpected turnover of a key Chapter official position. The Administrative Assistant indicated an inability to resolve MIP system issues without support.

Recommendation

1. The Chapter Secretary/Treasurer and Chapter Manager should obtain the reports from the Administrative Assistant for presentation and the Chapter Secretary/Treasurer should verify all required reports are printed for presentation to the community.
2. The Chapter Manager and officials should hold each other accountable and verify that a review of the financial statements is completed and documented.
3. The Chapter Manager should verify liability accounts intended to clear to zero are reconciled and that any account balance existing at a point in time represents the amount to be remitted to the appropriate agency.
4. The existing discrepancies should be investigated and resolved. The Chapter Manager and Administrative Assistant should solicit assistance and training on financial statements and on the functionality of the computerized system used by the Chapter for accounting and reporting.



**Finding IV: Bank reconciliations were not performed timely or properly reviewed.**

Criteria

The Fiscal Policies and Procedures, Section VII.C.2 states the following:

- (g) - The Administrative Assistant shall sign and date the computation and reconciliation. Once completed, the reconciliation, check register, validated bank deposits receipt slips, and bank statements shall be forwarded to the Fort Defiance Chapter Manager for review.
- (h) - The Fort Defiance Chapter Manager shall cross reference the documents received and review for accuracy and assurance immediately.
- (i) - The Fort Defiance Chapter Manager shall review the reconciliation for accuracy and completeness and return the documents to the Administrative Assistant for filing.

Additionally, the Fiscal Policies and Procedures, Section VII.C.1.b indicates the reconciliation shall be completed within one day upon receipt of the bank statement. Further, the Fiscal Policies and Procedures, Section VII.C.1.d indicates that any outstanding check that exceeds 90 calendar days from the issue date shall automatically be voided. Lastly, the Fiscal Policies and Procedures, Section VII.C.2.b, indicates that if the list of outstanding checks discloses checks that have been outstanding for 3 months (90 calendar days) or longer, the Administrative Assistant shall delete those checks from the list of outstanding checks and shall credit the checkbook register and the fund balance ledgers by the amount of the voided checks.

Condition

1. Bank statements and reconciliations were not time stamped and dated upon receipt or completion. For four of the 12 months within the audit period, the reconciliation was not completed within one day of statement receipt based on the print date on the MIP system generated reconciliation.
2. The bank reconciliations were not signed by the Administrative Assistant and there was no indication on the bank reconciliation of Chapter Manager review. The end of the month checklist requires Administrative Assistant, Chapter Manager, and Secretary/Treasurer signatures upon review of monthly financial items and the reconciliation is included on the checklist. During July 2023, the signatures of the Chapter Manager or officials were not on the checklist.
3. We scanned the outstanding check listing as of December 31, 2023, and noted that five checks totaling \$1,974 were listed as outstanding for more than 90 days.

Effect

Risk of theft and misuse of Chapter resources is increased when reconciliations are not performed timely or reviewed properly and reconciling items are not addressed timely.

Cause

There was a lack of oversight and review by the Chapter Manager and Chapter officials. The Administrative Assistant noted MIP system issues encountered when processing voids in the Chapter's MIP system. Voided checks were still being reflected as outstanding.

Recommendation

1. The Administrative Assistant should sign and date the reconciliation after completion to indicate the reconciliation was completed within one day of receipt.
2. The Chapter Manager should verify the Administrative Assistant has completed the bank reconciliation within one day of receipt and review for any discrepancies.
3. Once the Chapter Manager has reviewed, the reconciliation should be signed and dated to document the review. A calendar reminder could be set for the day after the bank statements are ready each month.
4. The Administrative Assistant should review the outstanding check listing each month when performing the reconciliation to verify no single check has been outstanding for more than 90 days. If the check has been voided, the Administrative Assistant and Chapter Manager should verify that the check is also removed from the outstanding listing in the MIP system.



**Finding V: The Chapter's financial audits are not current.**

Criteria

The Fiscal Policies and Procedures, Section VII.M.1 indicates the Chapter shall obtain an audit over its financial operations at least every two years and which shall include funds received from all Navajo Nation, State, County, Federal sources, and other fund sources.

Condition

The most recent financial audit the Chapter indicated was completed was for the year ended September 30, 2016, however a copy of the final audit report was not on file at the Chapter. Chapter personnel also indicated that a financial audit for fiscal year 2017 has been started however, the audit was never completed. The auditors have been waiting on requested audit documentation and the Chapter has been nonresponsive. The Chapter has been an LGA-certified Chapter since 2016.

Effect

Due to the lack of adherence to policy, Chapter officials, management, and the community did not receive assurance as to whether Chapter financial statements adhere to the accounting principles generally accepted in the United States (GAAP). Further, audited financial statement information was not available to share with Chapter stakeholders.

Cause

The Chapter Manager is aware of the need to bring the Chapter's financial audits current, but has not taken the action steps to do so.

Recommendation

1. The Chapter Manager should request a copy of the 2016 audit report from the firm engaged to perform the audit. A copy of the report should be maintained on file at the Chapter.
2. The Chapter Manager should initiate communication with the contracted auditor and provide requested documentation so that the 2017 audit can be completed. Chapter officials should monitor the Chapter Manager to verify this is done.
3. The Chapter Manager should take the necessary steps to procure the services of an independent auditor for subsequent years to bring the audits current.
4. Chapter officials and the Chapter Manager should educate themselves and the community regarding the purpose of the different types of audits and that any findings present the Chapter with the opportunity to enhance and improve operations for the benefit of stakeholders.

**Finding VI: Required documentation related to scholarship and housing discretionary disbursements was not on file.**

Criteria

The Regulations for Fort Defiance Chapter Financial Educational Assistance, Section III.C.a. indicates that the completed application must contain a copy of the applicant's social security card. Further, the Housing Discretionary Policy and Procedures, Section V indicates that all applications must include required eligibility documentation as prescribed in Section V.A and must be ranked in accordance with Section V.B.

Condition

Audit Area and Total Amount of Transactions Reviewed	Number of Transactions Reviewed	Missing Documentation	Amount
Scholarship Assistance disbursements totaling \$1,000	4	For all four scholarship assistance selections, the applicant's social security card was not in the permanent file.	\$ 1,000.00
Housing Discretionary disbursements totaling \$1,950	3	For one housing discretionary selection, the Chapter did not document the points-based system of approval or maintain required eligibility documentation.	650.00
		<b>TOTAL</b>	<b>\$ 1,650.00</b>

Effect

Scholarship applicants and housing discretionary assistance applicants received funding that was not allowable per policy, which is an inappropriate use of Chapter funds. The documentation requirements were not adhered to by Chapter personnel.

Cause

The scholarship application utilized did not request all documentation required by Chapter policy. Additionally, the Chapter Manager and Chapter officials did not verify all required information was obtained to support the scholarship or housing disbursement prior to signing the check.

Recommendation

1. The Chapter Manager should update the scholarship application to incorporate all required documentation needed to receive assistance in accordance with Chapter policy.
2. The Chapter Manager and Chapter officials should verify that the scholarship and housing discretionary applications include all required documentation per their policy.



**Finding VII: The Chapter utilizes fuel and fleet payment cards without established controls in place.**

Criteria

The Fiscal Policies and Procedures, Section V.A.3 indicates the Chapter shall have a system of internal control procedures to ensure that all funds are used properly.

Condition

The Chapter has four payment cards to pay for fuel and fleet related expenditures. The cards were used to make purchases at a local gas station. The following deficiencies were noted with the account:

- There is no written agreement in place for the WEX account that defines the terms and conditions of the account.
- There is no Chapter resolution authorizing the opening of a WEX card account.
- The Chapter did not establish policies and procedures for how the account would be administered and for the use of the four payment cards.
- Two purchases totaling \$2,889 were reviewed and for both, individual receipts were not maintained and therefore, the disbursements were not supported.
- The Administrative Assistant indicated that a review of the receipt from the employee using the card is performed upon return from the store, however there is no evidence of such review, and the receipts are not maintained. In addition, there is no evidence of a reconciliation from the receipts to the monthly WEX statement.

Effect

Lack of established internal controls over the fuel and fleet payment cards increases the Chapter's risk of unauthorized account users, unauthorized purchases, and excessive spending, all of which may result in the misappropriation of Chapter funds.

Cause

The Administrative Assistant indicated that the WEX account has been used in some capacity for many years, and Chapter officials did not properly consider the risks associated with conducting Chapter business in this manner.

Recommendation

The Chapter Manager should develop policies and procedures related to the WEX account to be reviewed by the Department of Justice. Policies and procedures should include the following:

1. Who at the Chapter is authorized to make purchases with the WEX card.
2. What is authorized to be purchased with the WEX card.
3. What the spending limit is on the WEX card.
4. How the Chapter will monitor card usage to ensure that purchases of large quantities of like-kind items adhere to procurement policies.
5. Required documentation to support purchase authorizations and review of post purchase documentation and receipts.

**Finding VIII: The Chapter's timekeeping system could be more robust.**

Criteria

The Fiscal Policies and Procedures, Section VII.H.2.b indicates the immediate supervisor is responsible to maintain an attendance sheet on all Fort Defiance Chapter employees. The attendance sheet shall be signed by Fort Defiance Chapter employees each day to record employees' time of arrival and departure. Additionally, the Fiscal Policies and Procedures, Section VII.H.2.c indicates the Administrative Assistant is responsible for calculating the time and hours worked for each employee and shall enter the total hours on the timesheet. Timesheets shall also document regular and overtime hours worked, annual, sick leave and leave without pay taken during each pay period.

Condition

The timecard system utilized by the Chapter is a punch card system whereby an employee is required to obtain a card stamp to clock in and out.

A sample of 20 individual payroll transactions totaling \$23,900 were reviewed and the following was noted:

1. The hours reported on the approved timecard for eleven transactions did not agree to the hours paid. Nine transactions reflect an underpayment of \$741 and two reflect an overpayment of \$329. With the errors noted related to clocking in and out, the accuracy of the timecards cannot be relied upon to substantiate pay.
2. Timecards reviewed did not always contain two punches in the morning and afternoon, as required, making it difficult to verify hours worked. Manual notations were made administratively in some instances when this occurred, but not in all instances, making it difficult to substantiate time worked. Instances were noted that the Chapter Manager did not clock in and out for lunch.
3. The pay amounts for five hourly employees were calculated incorrectly. Fractional hours worked were calculated on the timesheet in minutes but paid out as a fraction of the hour worked. This resulted in underpayments of \$18.
4. The Chapter did not document the accrual and use of leave, including compensatory time, on a consistent basis.

Effect

The timecard utilized to pay employees may be incomplete or inaccurate. Administrative adjustments for missed punches may not be authorized by employees. This increases the risk of errors and the likelihood of misreported hours. Leave balances including, sick, vacation, and compensatory time, may be inaccurate.



Cause

The Chapter Manager did not model or enforce the importance of clocking in and out. The Administrative Assistant was taught to use a fractional hour website to assist with time computations but was utilizing the wrong fractional amounts in certain cases when calculating employee pay. The Chapter Manager did not implement a system to track paid leave and compensatory time balances.

Recommendation

1. The Chapter Manager should clock in and out to differentiate work hours from non-work hours.
2. The Chapter Manager and Administrative Assistant should enforce policy and require each employee to sign off on their timecard daily.
3. The Chapter Manager and Administrative Assistant should follow up with employees who fail to punch in and out correctly. Any manual adjustments required to the timesheet because of a missed punch should be resolved the same day and both the employee and Administrative Assistant should initial the change on the timecard.
4. The Chapter Manager and Chapter officials should verify timecards against the system entered time data before signing payroll checks.
5. The Chapter Manager and Administrative Assistant should investigate other timekeeping systems to determine if another system would better meet the Chapter's payroll recordkeeping needs.
6. The Chapter Manager and Administrative Assistant should verify that recorded hours are being calculated properly for fractional hours worked.
7. The Chapter Manager should utilize the financial software or identify a system that will adequately track paid leave accruals and usage.

**Finding IX: Performance appraisals were not conducted and personnel files were not maintained in accordance with policy.**

Criteria

The Personnel Policies and Procedures Manual, Section XI.A, indicates that every employee must receive a performance appraisal at least once per year. Additionally, the Personnel Policies and Procedures Manual, Section XVII.B, indicates that the Chapter must maintain official personnel records for Fort Defiance Chapter employees that contain employment applications; background investigations, letters of reference, pay and benefits, training and education, performance evaluations, corrective or termination actions, and other necessary information.

Condition

Documentation indicating a performance appraisal was performed was not on file for all fourteen employees sampled. The Chapter Manager confirmed performance appraisals were not conducted during the period under audit. Additionally, for four of 14 employees sampled, a personnel file was not maintained for the employee at the Chapter.

Effect

Chapter management and officials may be unaware of potential issues with current personnel that may require disciplinary action. Employees were not provided with feedback on past performance and standards for future performance. Failure to maintain critical human resource and payroll documents leaves the Chapter susceptible to risk in situations where the employer bears the burden of proof.

Cause

The Chapter Manager cited less of a need to conduct performance appraisals because the Navajo Nation provided a general wage adjustment applicable to all employees. Further, the Chapter Manager indicated the missing personnel files were for long-term permanent employees, and any information stored within the files has not been needed.

Recommendation

1. The Chapter Manager should monitor the completion of employee performance appraisals annually.
2. The Chapter Manager should review Chapter recordkeeping requirements and verify that all personnel files are maintained for all employees and contain the required documentation.

**Finding X: The Chapter has not recorded asset data in MIP in recent years and purchased assets were not added to the property listing.**

Criteria

The Property Policies and Procedures, Section VI.C.1.a 7&8 indicate that upon acquisition of any property, the Chapter Manager shall immediately update the property records/inventory to reflect the acquisition. Upon acceptance, the Administrative Assistant shall tag and record the property in the appropriate general and subsidiary ledgers along with all capital assets owned. Lastly, Local Governance Act (LGA), Section 2., states capitalized property is nonexpendable property having an acquisition value of \$1,000 or more.

Condition

1. Asset and accumulated depreciation amounts have not been updated in the MIP financial system or in the General Fixed Assets Fund on the Balance Sheet since December 31, 2017.
2. During the review of \$48,646 in expenditures coded to capital expenditures, the Chapter purchased two computers totaling \$2,310 that were not added to the listing or posted to the MIP financial system.
3. It was noted that a major solar project that started in fiscal year 2019 and continued through fiscal year 2023 approximating \$1,115,000 had not been added to the listing or posted to the MIP financial system. Expenditures of \$42,844 for this project were part of the capital expenditures sample.

Effect

Without proper financial reporting, the Chapter is understating the value of assets and understating annual depreciation expense and accumulated depreciation. Further, Chapter property could be uninsured or underinsured, as the total cumulative asset balance cannot be derived from the Balance Sheet.

Cause

Chapter personnel lack an understanding of the asset reporting requirements.

Recommendation

1. The Administrative Assistant and Chapter Manager should obtain training in the areas of property control and asset reporting.
2. Expenditures coded to capital expenditure codes should be reviewed by the Chapter Manager and the Chapter Manager should verify all assets over \$1,000 are added to MIP.
3. The Administrative Assistant and Chapter Manager should identify assets for entry into MIP. Once entered, the MIP Summary Asset Ledger – Fixed Asset Listing Report should be reconciled to the Balance Sheet and the existence of all assets verified to the most recent physical inventory listing.



**Finding XI: Cash receipts policies and procedures were not adhered to.**

Criteria

The Fiscal Policies and Procedures, Section VII.A.2.c, indicates all cash receipts shall be recorded in ink on the cash receipt form daily, and which shall include the following: (1) the payer's name (2) the purpose of the cash receipt (3) the amount received (4) the date received and (5) the initials and position of the person receiving the money. Additionally, the Fiscal Policies and Procedures, Section V.A.2, indicates the Fort Defiance Chapter shall have a records system capable of identifying the source and use of funds. Further, the Fiscal Policies and Procedures, Section VII.A.2.h, indicates the Fort Defiance Chapter Manager shall deposit the monies into the Fort Defiance Chapter's bank account on a weekly basis or as practical. The Fort Defiance Chapter Manager shall deposit monies within ten days of receipt.

Condition

Twenty-five cash receipt transactions totaling \$2,172.59 were reviewed and the following was noted:

Audit Area and Total Amount of Transactions Reviewed	Number of Transactions Reviewed	Deficiency	Amount
Cash Receipts totaling \$2,172.59	25	For ten cash receipts reviewed, the prenumbered cash receipts were made out to "customer" rather than a specific payee, and for one cash receipt, the prenumbered cash receipt did not state the purpose of the revenue received.	\$ 42.42
		Four cash receipts reviewed were not coded to the proper account code.	72.48
		One cash receipt was not deposited timely. The monies were received May 2, 2023, and deposited May 19, 2023.	3.18
		For one cash receipt reviewed, the customer was undercharged for trash disposal by \$.18.	7.24
		For two cash receipt selections, the amount paid by the community member was more than what the fee schedule required. It was noted the customer may have indicated that the Chapter should keep the change.	212.40
<b>TOTAL</b>			<b>\$ 337.72</b>

Effect

Cash receipts could not be substantiated to the detailed receipts, forms, or fee schedules. Customers may have been charged the incorrect amount for services. Maintaining cash at the Chapter increases the risk of theft or misappropriation. Lack of accuracy in coding results in misstated reporting.

Cause

The Chapter Manager did not enforce Chapter policy for employees responsible for receiving and handling cash. The Chapter Manager and Administrative Assistant did not review receipts for proper coding or to verify the proper amount was received. The Administrative Assistant indicated the variances overages are related to the requirement that a community member bring in exact change, as they Chapter does not offer change. Lastly, the undercharge was due to a clerical error.

Recommendation

1. The temporary Office Assistant at the front desk should include the payees name and purpose of revenue received on every cash receipt. The Administrative Assistant and Chapter Manager should verify this.
2. The Administrative Assistant should utilize the chart of accounts when coding a cash receipt and the Chapter Manager should consult the chart of accounts when reviewing a cash receipt.
3. The Chapter Manager should ensure that the deposits occur no more than ten days after receiving cash. The Chapter Manager should establish a rotating deposit schedule each week and a backup process for deposits in the event specific personnel are unavailable to go to the bank.
4. If a community member allows the Chapter to "keep the change," then that portion of the cash receipt should be recorded as a donation.
5. The Chapter Manager and Administrative Assistant should review cash receipts and verify amounts charged reconcile to the related fee schedule.

**Finding XII: The Chapter began selling trash punch cards to customers prior to establishing a policy and procedures.**

Criteria

The Fiscal Policies and Procedures, Section VII indicates that it is policy of the Fort Defiance Chapter to establish internal controls to ensure its assets and resources are protected against waste, fraud, and inefficiency, and to ensure that accounting data is accurate, dependable, and compliant with any regulations, terms and conditions, assurances, and certification requirements of funding agencies.

Condition

A trash disposal punch card was created for sale to customers. The trash disposal punch card allows the customer to pay up front for a large number of trash bag disposal fees, rather than having to bring exact change in cash each time trash bags are brought to the Chapter for disposal.

- At the time of the audit, the Chapter had not passed a resolution authorizing the use of trash disposal punch cards, despite the fact the cards were already in use.
- The Chapter did not establish policies and procedures for how the cards would be administered and tracked.
- Trash cards were priced at \$20 plus Navajo Nation sales tax and during the audit period, twenty-seven cards were sold.

Effect

Lack of established internal controls over the trash disposal punch cards could result in the misappropriation of Chapter resources and the rendering of services without payment.

Cause

The Administrative Assistant indicated that trash disposal punch cards were implemented based on feedback from the community to not have to provide exact change during frequent visits to the Chapter to dispose of trash. The cards were put into use quickly to improve customer service.

Recommendation

The Chapter Manager should develop and implement policies and procedures to mitigate risks and ensure the proper accounting and reporting of all services provided to the community. Policies should require trash disposal punch cards to be numerically controlled and safeguarded.



**Finding XIII: Septic tank cleaning and Christmas Bazaar fees are not included on the Chapter's fee schedule.**

Criteria

The Fiscal Policies and Procedures, Section VII indicates that it is policy of the Fort Defiance Chapter to establish internal controls to ensure its assets and resources are protected against waste, fraud, and inefficiency, and to ensure that accounting data is accurate, dependable, and compliant with any regulations, terms and conditions, assurances, and certification requirements of funding agencies.

Condition

The Chapter did not have a fee schedule in place for all services provided, including septic tank cleaning and for vendors to sell goods at the Christmas Bazaar. In absence of a community approved fee schedule, we were unable to determine if community members were being charged an appropriate and consistent amount.

Effect

Revenues collected from community members totaling \$141 could not be verified to a fee schedule.

Cause

The Chapter began offering septic cleaning as a service during the pandemic in response to a community need. The Administrative Assistant indicated that the Chapter decided to do a Christmas Bazaar at the last-minute and was unable to prepare accordingly.

Recommendation

The Chapter Manager should add new service areas to the Chapter's fee schedule and have the associated fees approved by the community.

**Finding XIV: The Chapter did not thoroughly investigate conflicts of interest.**

Criteria

The Fiscal Policies and Procedures, Section VII.N.1, indicates that all Fort Defiance Chapter Officials and Fort Defiance Chapter employees shall refrain from making, participating in or influencing decisions where there is any real or potential conflict of interest. In the event of a real or potential economic conflict of interest where the Fort Defiance Chapter official or employee is required to participate as part of his or her official duties, the individual shall write a justification memorandum disclosing the real or potential conflict of interest and the necessity for that individual's continued participation, a copy of which shall be provided to the Navajo Nation Ethics and Rules Office and the Fort Defiance Chapter Administration. In the event that the individual does not properly disclose the real or potential conflict of interest to the Ethics and Rules Office and the Fort Defiance Chapter Administration, any Fort Defiance Chapter official or employee aware of the real or potential conflict of interest shall make said disclosure or take other action as appropriate,

Condition

An undisclosed conflict of interest was noted involving the Chapter Manager as follows:

- The Chapter Manager is related to an individual who is on the Community Land Use Planning Committee (CLUPC) committee and was the Pro Temp Secretary/Treasurer for a few days before a new Pro Temp Secretary/Treasurer was appointed. The Chapter Manager signed the related meeting stipend FAF's and checks totaling \$1,750 and a travel stipend of \$40.
- This same individual was a vendor to the Chapter during our period of review. The individual provided catering for a Christmas dinner. The Chapter Manager signed the FAF's and checks totaling \$3,050 for the catering. A W9 was not located on file at the Chapter for 2023 for this vendor. Further, only two quotes were received for the catering services, rather than the three required. The vendor awarded was the lowest quote of the two that were provided.
- For two of the checks noted in the first bullet, the Chapter Manager signed out the checks written to this individual.

Effect

The Chapter's transparency could be called into question, and concerns as to whether a failure to act in the best interest of the Chapter may arise.

Cause

The Chapter Manager disregarded comments from Chapter officials and personnel and did not adhere to policy. Chapter officials did not enforce Chapter policy or address the concerns of other Chapter employees. As a result, the conflict of interest remained undisclosed.

Recommendation

1. The conflict of interest should be reported to the Navajo Nation Ethics and Rules Office.
2. Chapter officials and the Chapter Manager should implement safeguards to protect all parties.
3. The Administrative Assistant should obtain the required number of quotes and the Chapter Manager should verify this prior to initiating a purchase.
4. The Administrative Assistant should obtain all required vendor documentation and the Chapter Manager should verify this prior to initiating a purchase.



## Appendix

### **Background**

The Navajo Nation Office of the Auditor General engaged Heinfeld, Meech, & Co. P.C. to perform an internal audit of the Fort Defiance Chapter for the 12-month period ended December 31, 2023.

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

The Fort Defiance 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 Fort Defiance Chapter are enumerated in Title 26, Local Governance Act (LGA) of the Navajo Nation Code. The Fort Defiance Chapter is an LGA-certified Chapter since 2016.

The local chapter government is managed by the Chapter Manager (CM) with administrative support provided by an Administrative Assistant (AA). The Chapter Manager has been employed with the Chapter for 17 years and has served as Chapter Manager for 5 of those years. The current Administrative Assistant has been with the Chapter for 24 years. Oversight is provided by the elected chapter officials comprised of the President, Vice-President and Secretary/Treasurer. Additional oversight is provided by the Navajo Nation Division of Community Development/ Administrative Service Centers (ASC).

The majority of the Chapter's resources are provided through appropriations from the Navajo Nation central government. Other revenue is generated from miscellaneous user charges assessed by the Chapter for services and/or goods provided to its community members.

### **Objective**

The objective of the internal audit was to evaluate the Chapter's internal controls; how well controls are designed, implemented, and operated to meet the Chapter's objectives in the following areas:

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

### **Audit Methodology**

In meeting the audit objectives, we interviewed the Chapter administration and officials, and examined available records. More specifically, we tested samples of cash receipts, payroll and nonpayroll disbursements including capital disbursements, scholarship assistance, and housing financial assistance for internal controls and compliance requirements by using a non-statistical, judgmental method.

## Chapter Response



**THE NAVAJO NATION  
FORT DEFIANCE CHAPTER**

P.O. Box 366 • Ft Defiance, Arizona 86504  
Phone: (928) 729-4352 • Fax (928) 729-4353  
Email: [ftdefiance@navajochapters.org](mailto:ftdefiance@navajochapters.org)

Aaron D. Sam, *President*  
Genevieve Jackson, *Vice-President*  
Brenda Wauneka, *Secretary/Treasurer*  
Herman Billie, *Grazing Official*  
Dr. Andy Nez, *25th NN Council Delegate*

Dr. Buu Van Nygren  
Navajo Nation President

Richelle Montoya  
Navajo Nation Vice President

June 14, 2024

Navajo Nation  
Office of the Auditor General  
Helen Brown, Acting Auditor General

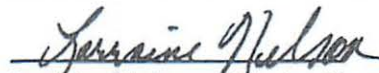


Re: Heinfield Meech & Co. P.C., Audit Final Draft


The Fort Defiance Chapter has received and reviewed the final draft of the Internal Audit of the Fort Defiance Chapter dated June 3, 2024 covering Fiscal Year 2023. The Fort Defiance Chapter accepts the audit report and has begun the process of a Corrective Action Plan.


The Fort Defiance Chapter understands and accepts the guidance and explanations expressed during the June 3, 2024 Exit Conference. Additionally, the Fort Defiance Chapter is readily taking steps to address all audit findings. The Fort Defiance Chapter will continue to implement all recommendations to ensure the chapter administration and officials continue operating in full transparency and at the highest professional level to keep the faith, integrity and goodwill of the local community.


If you have any questions, please feel free to contact Fort Defiance Chapter at (928) 729-4352 or [ftdefiance@navajochapters.org](mailto:ftdefiance@navajochapters.org). Thank you for your time and attention.

  
Lorraine Nelson, Chapter Manager  
Fort Defiance Chapter

6/14/24  
Date

**CONCURRENCE:**  
  
Aaron D. Sam, Chapter President  
Fort Defiance Chapter

 6/18/24  
Genevieve Jackson, Chapter Vice President  
Fort Defiance Chapter

  
Brenda Wauneka, Secretary/Treasurer  
Fort Defiance Chapter