



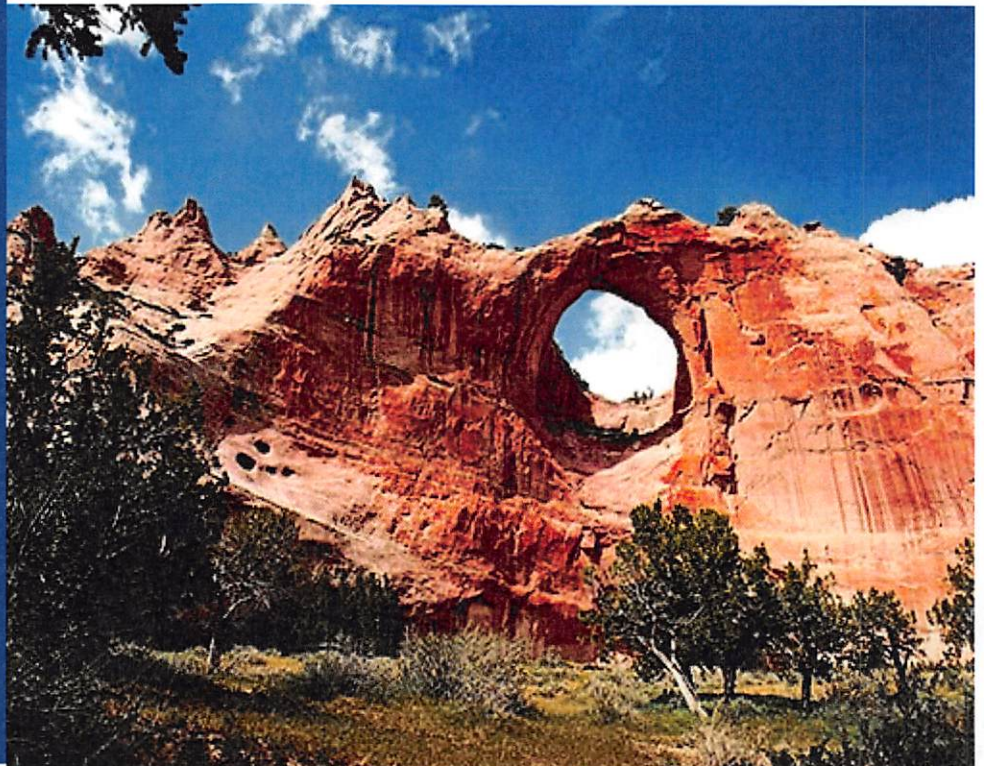
OFFICE OF THE AUDITOR GENERAL

The Navajo Nation

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

**Report No. 24-11
June 2024**

**Performed by:
Riley Wilson, Auditor
Alfreda Lee, Senior Auditor**





June 28, 2024

Elouise Johnson, President
BAHASTLAH CHAPTER
P.O. Box 4424
Yahtahey, NM 87375

Dear Ms. Johnson:

The Office of the Auditor General (OAG) herewith transmits audit report no. 24-11, a 2nd Follow-up Review of the Bahastlah Chapter Corrective Action Plan (CAP) Implementation.

BACKGROUND

In 2011, the OAG performed a compliance audit of Bahastlah Chapter and issued audit report no. 11-30. The chapter audit report and CAP were approved by the Budget and Finance Committee on December 6, 2011, per resolution no. BFD-59-11. In 2015, the OAG performed a follow-up review of the Bahastlah Chapter and issued audit report no. 15-25. The follow-up review resulted in 22 of 24 issues not being resolved. Therefore, the Chapter did not fully implement the CAP from the initial audit report no. 11-30.

OBJECTIVE AND SCOPE

The objective of the 2nd follow-up review was to determine whether the Bahastlah Chapter fully implemented its CAP based on the six-month review period of April 1, 2023 to September 30, 2023.

SUMMARY

Of the 41 corrective measures, the Bahastlah Chapter implemented 4 (10%) corrective measures, leaving 37 (90%) not fully implemented. See Exhibit A for the details of our review results.

CONCLUSION

Based on the review results and the risks that remain as a result of the non-implementation, the Office of the Auditor General concludes the sanctions shall remain imposed on the Chapter and its officials pursuant to 12 N.N.C. Sections 9 (B) and (C). Once the Bahastlah Chapter fully implements its corrective action plan, all withheld funds will be released to the Chapter and officials.

We thank the Bahastlah Chapter administration and officials for assisting in this follow-up review.

Sincerely,

Helen Brown, CFE, Principal Auditor
Acting Auditor General

xc: Tom Begay, Vice-President
Joan Nez, Secretary/Treasurer
Juanita Tom, Community Services Coordinator
Nathan Notah, Council Delegate
BAHASTLAH CHAPTER
Jaron Charley, Department Manager II
Patricia Begay, Senior Programs and Projects Specialist
ADMINISTRATIVE SERVICE CENTER/DCD
Chrono

REVIEW RESULTS

Bahastlah Chapter Corrective Action Plan Implementation

Review Period: April 1, 2023 to September 30, 2023

Audit Issues	Total # of Corrective Measures	# of Corrective Measures Implemented	# of Corrective Measures Not Implemented	Audit Issue Resolved?	Review Details
1. Poor monitoring of cash flows has resulted in excessive overdraft withdrawals.	2	2	0	Yes	Attachment A
2. Capital outlay funds were reallocated to cover fund deficits.	1	1	0	Yes	
3. Chapter property is not adequately insured.	1	1	0	Yes	
4. Chapter travel activities are not properly authorized.	1	0	1	No	Attachment B
5. Chapter financial assistance lacks proper documentation.	2	0	2	No	
6. Lack of segregation of duties within the cash receipt process.	2	0	2	No	
7. Untimely deposits of cash receipts.	1	0	1	No	
8. Poor inventory over hay resale activities.	2	0	2	No	
9. Petty cash fund lacks policies and procedures.	1	0	1	No	
10. Personnel files are incomplete.	2	0	2	No	
11. Cancelled checks are not reviewed.	1	0	1	No	
12. Chapter property lacks proper identification numbers.	1	0	1	No	
13. Wages paid cannot be fully justified.	3	0	3	No	
14. Unreliable financial statements.	2	0	2	No	
15. Poor budget monitoring resulted in budget deficits.	2	0	2	No	
16. Budget changes were not community approved.	2	0	2	No	
17. IRS report was inaccurate.	1	0	1	No	
18. IRS report was overdue.	2	0	2	No	

REVIEW RESULTS

Bahastlah Chapter Corrective Action Plan Implementation

Review Period: April 1, 2023 to September 30, 2023

Audit Issues	Total # of Corrective Measures	# of Corrective Measures Implemented	# of Corrective Measures Not Implemented	Audit Issue Resolved?	Review Details
19. State unemployment tax report was overdue.	1	0	1	No	
20. Non-compliance with procurement code and regulations.	4	0	4	No	
21. Non-compliance with PEP policies and procedures.	2	0	2	No	
22. Use of emergency funds cannot be justified.	2	0	2	No	
23. Monitoring by Chapter Officials is insufficient.	2	0	2	No	
24. The Chapter has not fully implemented a five-management system.	1	0	1	No	
TOTAL:	41	4	37	3 – Yes 21 – 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.

<p>◆ 2024 STATUS</p>	<p>Poor monitoring of cash flows has resulted in excessive overdraft withdrawals. RESOLVED</p>
<p>For the six-month review period, the bank statements did not show any overdraft fees. The Chapter was able to ensure sufficient funds were available before checks were disbursed. Therefore, the audit issue has been reasonably resolved.</p>	
<p>◆ 2024 STATUS</p>	<p>Capital outlay funds were reallocated to cover fund deficits. RESOLVED</p>
<p>The MIP accounting system general ledger and expenditure journals did not show capital outlay expenditures during the review period. In the absence of such expenditures, the Chapter provides assurance that capital outlay funds were not used to cover fund deficits. Therefore, the audit issue has been reasonably resolved.</p>	
<p>◆ 2024 STATUS</p>	<p>Chapter property is not adequately insured. RESOLVED</p>
<p>The Chapter reported 162 assets totaling \$3,187,025 in its fiscal year 2024 Underwriting Exposure Summary (UES). The Chapter paid its premium for fiscal year 2023, thus adequately insuring its property. Therefore, the audit issue has been reasonably resolved.</p> <p>During the review, a gooseneck trailer that cost approximately \$24,000 was omitted from the property inventory and therefore, not currently insured. Although this chapter property is considered nominal based on its value in comparison to the overall total assets of \$3.2 million, the Chapter was advised to update its property inventory to include the trailer and get it insured.</p>	

<p>◆ 2024 STATUS</p>	<p>Chapter travel activities are not properly authorized. NOT RESOLVED</p>
<p>The Chapter utilized the Five Management System (FMS) travel policies and procedures to account for travel activities. For our review, 16 travel disbursements totaling \$3,166 were examined and the following was noted:</p> <ul style="list-style-type: none"> • 16 (100%) totaling \$3,166 had no authorization for travel requests and reimbursements. • 5 (31%) totaling \$1,098 had no supporting documentation on file. <p><u>Other observations contrary to applicable travel policies and procedures:</u></p> <ul style="list-style-type: none"> • No trip and mileage reports were included in the travel files. • Travelers still received travel advances for meals although lunch was provided at the event. • Privately Owned Vehicle insurance information was not verified. <p>Since internal controls have not improved, there is still the risk that Chapter funds will be used for unauthorized travel activities. The audit issue is not resolved.</p>	
<p>◆ 2024 STATUS</p>	<p>Chapter financial assistance lacks proper documentation. NOT RESOLVED</p>
<p>For our review, there were 13 financial assistance disbursements totaling \$6,013 for scholarship and housing assistance. Of this number, nine (69%) disbursements totaling \$4,363 for housing financial assistance had incomplete supporting documentation on file. One housing financial assistance disbursement totaling \$300 had no supporting documentation on file.</p> <p>The risk of ineligible recipients receiving financial assistance remains high. The audit issue is not resolved.</p>	
<p>◆ 2024 STATUS</p>	<p>Lack of segregation of duties within the cash receipt process. NOT RESOLVED</p>
<p>Our review discovered multiple temporary workers collecting cash receipts and preparing the cash receipt tickets. The former Accounts Maintenance Specialist (AMS) was not monitoring the temporary workers. The transfer of cash receipts to the Community Services Coordinator (CSC) was documented on a cash receipt ticket, however, there was no reconciliation, so the amount recorded on the cash receipt ticket was inaccurate.</p> <p>The CSC represented she was not aware of all the internal control issues within the cash receipts process, and she only counted the cash receipts before deposit. The current office assistant, as a temporary worker, assumed responsibility for the cash receipts in August 2023 without proper forms and guidance. Further, there was no indication the Secretary/Treasurer (S/T) monitored the process to ensure staff duties within the cash receipt process were properly segregated.</p> <p>The risks of unrecorded and undeposited cash receipts remain high. Therefore, the audit issue remains unresolved.</p>	

<p>◆</p> <p>2024 STATUS</p>	<p>Untimely deposits of cash receipts.</p> <p>NOT RESOLVED</p> <p>The CSC deposits cash receipts at least once a month. She was unaware of the FMS fiscal policies and procedures that required weekly deposits. Further, the monthly comparison of the cash receipt tickets to the deposits showed the CSC did not deposit cash receipts intact. Instead, the rest of the cash receipts were deposited until the following month. Since the CSC did not deposit cash receipts intact weekly, the cash on hand ranged from \$210 to \$866 before the next deposit. Although there was a significant amount of cash on hand, there was no indication the cash receipts were used for other purposes, such as petty cash.</p> <p>The risk of theft remains high; therefore, the audit issue remains unresolved.</p>
<p>◆</p> <p>2024 STATUS</p>	<p>Poor inventory over hay resale activities.</p> <p>NOT RESOLVED</p> <p>The CSC confirmed there were no hay resale activities. However, dog and bird houses that were built by Chapter employees were put on sale, so these resale activities were reviewed. There was no perpetual inventory and no physical counts for resale activities. The Chapter staff stated it was unaware that a perpetual inventory needed to be maintained for resale items.</p> <p>Overall, the risk of the Chapter not accounting for all resale items remains high. As such, the audit issue remains unresolved.</p>
<p>◆</p> <p>2024 STATUS</p>	<p>Petty cash fund lacks policies and procedures.</p> <p>NOT RESOLVED</p> <p>Per the Corrective Action Plan (CAP), the Chapter agreed to develop petty cash fund policies and procedures as an internal control measure. However, the Chapter acknowledged these policies and procedures were not developed since there is no petty cash fund and the chapter does not use cash receipts as a petty cash fund. Although there is no petty cash fund at this time, the Chapter agreed to develop policies and procedures in anticipation of such a fund being created in the future. In doing so, the Chapter would have proper internal controls in place but in the absence of policies and procedures, the finding remains unresolved.</p>
<p>◆</p> <p>2024 STATUS</p>	<p>Personnel files are incomplete.</p> <p>NOT RESOLVED</p> <p>The Chapter established a checklist to ensure personnel files include all required documents. For our review, personnel files for 41 temporary employees, including 21 student/minor employees, were examined and noted the following:</p> <ul style="list-style-type: none"> • 41 (100%) did not have the required forms and signatures. • 32 (78%) did not have Personnel Action Forms, termination notices and required signatures. • 32 (78%) did not have voter registrations on file. • 9 (22%) did not have New Mexico Hire Forms on file. • 8 (20%) did not have IRS Form W-4 and Social Security cards on file. • 1 (5%) of 21 minors did not have Parent Authorization Forms on file.

<p>Since the CSC began employment with the Chapter in October 2019, she received no FMS training. As a result, she cannot train the Chapter Officials and other administrative staff on the FMS requirements for personnel documentation and records management.</p> <p>The risk of the Chapter employees not being authorized to work remains high. The audit issue is not resolved.</p>	
<p>◆ 2024 STATUS</p>	<p>Cancelled checks are not reviewed. NOT RESOLVED</p>
<p>The CSC did not obtain canceled checks with monthly bank statements from the bank. Consequently, the CSC does not review canceled checks for legitimate signatures and identify any irregularities during the bank reconciliation process. The Chapter Officials stated ordering canceled checks from the bank is expensive, so the CSC began downloading checks in January 2024.</p> <p>The risk of the Chapter not detecting any checks that may have been forged or altered otherwise is still high. The audit issue remains unresolved.</p>	
<p>◆ 2024 STATUS</p>	<p>Chapter property lacks proper identification numbers. NOT RESOLVED</p>
<p>For our review, we judgmentally selected 45 of 162 (28%) assets totaling \$2,849,336. All 45 property items did not have an affixed identification tag. There is no evidence that the CSC or the former AMS implemented corrective measures to improve accountability of chapter property. In absence of property identification tags, the Chapter staff cannot readily determine property that is owned and controlled by the Chapter.</p> <p>The Chapter is at risk of incurring financial losses if property is stolen or damaged. Therefore, the audit issue remains unresolved.</p>	
<p>◆ 2024 STATUS</p>	<p>Wages paid cannot be fully justified. NOT RESOLVED</p>
<p>For our review, we judgmentally selected 41 of 183 (22%) payroll disbursements totaling \$32,949. Of this number, ten (24%) disbursements totaling \$8,076 had no support documentation therefore we could not verify: a) daily attendance was documented, b) hours recorded reconciled to the timesheets, and c) timesheets were reviewed and approved. Thus, wages totaling \$8,076 cannot be justified.</p> <p>Considering the number of exceptions, the risk of unjustified wages remains high. The audit issue remains unresolved.</p>	
<p>◆ 2024 STATUS</p>	<p>Unreliable financial statements. NOT RESOLVED</p>
<p>Our review of the MIP accounting system (MIP) showed various deficiencies such as posting errors and adjustments. The Chapter does not have a fixed asset module for its MIP; therefore, the Balance Sheet does not report General Fixed Assets and depreciation. Currently, the Chapter does not plan to obtain the fixed asset module and does not have a manual system in place to depreciate its fixed assets.</p>	

Overall, there has been little progress to improve the reliability of the chapter financial statements. Although the CSC received MIP training, she does not access the system to make sure financial data is kept current and accurate. The audit issue remains unresolved.	
<p>◆</p> <p>2024 STATUS</p>	<p>Poor budget monitoring resulted in budget deficits.</p> <p>NOT RESOLVED</p>
<p>The MIP reports for the review period continue to show fund deficits, specifically for the following funds: a) Supplemental Youth Fund - \$5,767 and b) Chapter Stipend Fund - \$4,431. The CSC explained the Summer Youth Fund was withheld by the Office of the Controller until the Chapter submitted a budget for the new appropriation, but the Chapter continued to expend these funds. The CSC could not explain the reason for the Chapter Stipend Fund deficit.</p> <p>There was no clear evidence of budget monitoring by the CSC and Chapter Officials. Budget to actual reports were not periodically reviewed and voucher packets were approved without budget verification. Overall, the lack of budget monitoring remains high, and the audit issue remains unresolved.</p>	
<p>◆</p> <p>2024 STATUS</p>	<p>Budget changes were not community approved.</p> <p>NOT RESOLVED</p>
<p>The MIP accounting system general ledger and posted budget report showed no budget transfers made during the audit scope. However, there were several budget deficits that were reported by the accounting system. Ideally, the Chapter should have processed budget transfers with proper approval to avoid budget deficits, but these budget changes were not made.</p> <p>Overall, the Chapter staff and officials do not have an adequate understanding of budget policies and procedures, especially in the areas of monitoring budget balances and recognizing the need for budget modifications or transfers to avoid deficits. Therefore, the audit issue remains unresolved</p>	
<p>◆</p> <p>2024 STATUS</p>	<p>IRS report was inaccurate.</p> <p>NOT RESOLVED</p>
<p>For our review, two Internal Revenue Service Form 941 Employer's Quarterly Federal Tax Return (Form 941) totaling \$18,453 were examined for accuracy. The Chapter utilized its MIP accounting system payroll module to prepare Form 941. The former AMS generated these reports and submitted them electronically to the IRS; however, the CSC did not review the 941 worksheets for accuracy. Further, W-4 Employee's Withholding Certificates (W-4) were not signed by the employees. More importantly, the Chapter withheld federal withholding taxes for Summer Youth workers who claimed exempt status on the W-4.</p> <p>Collectively, the IRS reports are inaccurate due to the lack of review and monitoring by the CSC and Chapter Officials. Therefore, the audit issue remains unresolved.</p>	
<p>◆</p> <p>2024 STATUS</p>	<p>IRS report was overdue.</p> <p>NOT RESOLVED</p>
<p>The two IRS Form 941 reports totaling \$18,453 were also examined for timely submission. The Chapter was five months late in remitting the 2nd quarter IRS Form 941 which was due on July</p>	

30, 2023, but submitted on January 17, 2024. However, the Chapter remitted the 3rd quarter IRS Form 941 prior to the due date of October 30, 2023.

Other observations:

As a monthly depositor, the Chapter remits payroll tax deposits by the 15th day of the following month. However, five of six monthly deposits (83%) totaling \$14,864 were remitted late between two weeks and four months.

The Chapter Officials were unaware that one IRS Form 941 and most of the monthly payroll tax deposits were remitted late. Although the CSC stated the IRS has not sent notification of any penalties, fees, and interest for late reports and payments, there is still the risk that the Chapter will have to pay these unnecessary costs. Overall, the audit issue remains unresolved.

◆	State unemployment tax report was overdue.
2024 STATUS	NOT RESOLVED

Two New Mexico Department of Workforce Solutions (NM Workforce Solutions) quarterly reports totaling \$246 were remitted late or not at all. The 2nd quarter report was remitted late 39 days and assessed interest of \$5 and a \$25 penalty, and the 3rd quarter report was not remitted resulting in a \$100 penalty.

Other observations:

- Other penalties paid to NM Workforce Solutions date as far back as the 3rd quarter of 2021.
- On June 7, 2023, NM Workforce Solutions sent a Notice of Action for Collection/Warrant demanding payment totaling \$1,077 for contributions, interest and penalties but no payment was made as of September 30, 2023.

The Chapter Officials and CSC were not aware that the NM Workforce Solutions reports and payments were continuously remitted and paid late. The risk of late reporting is unnecessary costs for penalties being assessed by the NM Workforce Solutions and this risk remains high. Thus, the audit issue remains unresolved.

◆	Non-compliance with procurement code and regulations.
2024 STATUS	NOT RESOLVED

For our review, 45 of 62 (73%) disbursements totaling \$27,578 were examined to verify compliance with procurement regulations and the following were noted:

- 21 (72%) totaling \$9,187 had no quotations attached to the purchase requests.
- 16 (100%) totaling \$6,594 had no receiving reports completed and goods were not verified per invoice/packaging slip.

In light of the discrepancies, the CSC does not have an adequate understanding of the procurement rules and regulations, therefore she could not effectively monitor these activities to ensure compliance. The chapter administrative staff will need further training and continuous oversight to ensure a sufficient understanding of procurement rules and regulations.

Noncompliance with Navajo Nation Procurement rules and regulations could result in misuse of funds if the Chapter is unable to obtain goods/services based on fair and competitive prices. Overall, the audit issue remains unresolved.	
<p>◆</p> <p>2024 STATUS</p>	<p>Non-compliance with PEP policies and procedures.</p> <p>NOT RESOLVED</p>
<p>The CSC claimed the Chapter Public Employment Program (PEP) policies and procedures were approved via resolution on April 14, 2019 but no resolution was provided to substantiate this claim. Further, due to poor recordkeeping, the total number of PEP projects for the review period could not be determined. Nonetheless, based on other records, 15 projects totaling \$109,355 were identified and examined to reveal the following:</p> <ul style="list-style-type: none"> • 15 of 15 (100%) totaling \$109,355 did not have project completion reports. • 12 of 15 (80%) totaling \$47,146 did not have project applications. • 6 of 15 (60%) had no project cost documented on the project applications. • 1 of 15 (8%) had no beginning and ending dates on the project applications. <p>The lack of compliance does not ensure the Chapter is using PEP funds for its intended purposes. Therefore, the audit issue remains unresolved.</p>	
<p>◆</p> <p>2024 STATUS</p>	<p>Use of emergency funds cannot be justified.</p> <p>NOT RESOLVED</p>
<p>Despite our requests, the Chapter did not provide an emergency response plan. The CSC referred to an emergency response policy on the Chapter's website, but it is incomplete.</p> <p>For our review, three emergency fund disbursements totaling \$2,352 were examined and they all had missing supporting documents to justify the proper use of Chapter Emergency Fund. The following documents were not on file:</p> <ul style="list-style-type: none"> – Meeting minutes, assessments, recipient listings, etc. to support the Declaration of Emergency. – Emergency priority listing. – Proper approval through an adopted budget or community action at a duly called chapter meeting of the emergency fund disbursements. <p>If the Chapter is not complying with fund guidelines, the Chapter cannot provide reasonable assurance it utilizes restricted funds only for their intended purposes and community members receive direct services that are needed. Therefore, the audit issue remains unresolved.</p>	
<p>◆</p> <p>2024 STATUS</p>	<p>Monitoring by Chapter Officials is insufficient.</p> <p>NOT RESOLVED</p>
<p>The Navajo Nation Budget Instructions Manual monitoring forms require the Chapter Officials and CSC to monitor chapter financial transactions monthly and sign the forms to acknowledge their monitoring tasks. However, the monitoring forms on file were mostly incomplete, blank, or erroneous with incorrect months written on the forms.</p>	

In addition to the incomplete monitoring forms, the following are other examples of insufficient monitoring:

- a) Per the Local Governance Act, the S/T is the designated co-signer of chapter checks along with the CSC. Despite being the S/T since 2012, the S/T does not co-sign all the checks. Rather, the Vice-President or President co-signed checks but there were no justification memos for the need of alternate co-signers. The CSC and President stated the S/T is unable to sign checks due to her full-time job.
- b) The Chapter President took office in January 2023 and is currently the immediate supervisor for the CSC. Although she meets with the CSC weekly, her and the Vice-President represented the CSC does not provide a clear explanation of the chapter financial activities, thus making it difficult to make informed decisions. There is also no evidence the Chapter Officials recognized the need for the administrative staff to seek further technical assistance or training from the Administrative Services Center to gain a better understanding of the Five Management System policies and procedures.
- c) In preparation for this follow-up review, the Chapter Officials and staff were asked to complete a confirmation form indicating the current status of each outstanding corrective measure. The Chapter was supposed to complete and sign the form and be prepared to discuss the document at the entrance meeting. However, the Chapter did not complete this task. Rather, the auditor had to explain the CAP in detail before the document was signed. By all indications, the Chapter Officials and CSC had minimal understanding of the CAP and how to proceed with implementing corrective measures. This likely explains the results of this review.

In the absence of sufficient monitoring, the risk of circumventing policies and procedures remains high. Therefore, the audit issue remains unresolved.

◆	The Chapter has not fully implemented a five-management system.
2024 STATUS	NOT RESOLVED

The Chapter adopted the standard FMS policies and procedures in July 2010. Based on the collective results of this 2nd follow-up review, the Chapter is not complying with the FMS policies and procedures. Consequently, internal controls are weak. As previously indicated, the Chapter has incurred penalties for late tax reporting, financial transactions lacking support documentation, no compliance with procurement regulations, and lack of monitoring. Due to these control weaknesses, the risks identified for the applicable audit findings have not been reasonably mitigated.

From our review, there could be several contributing factors that may explain why the CAP was not fully implemented. First and foremost, the Chapter Officials and CSC do not have an adequate understanding of the objectives of the CAP and how internal controls can be strengthened with corrective measures. Secondly, the CSC was unable to effectively perform tasks as required in her job description, which includes implementing the FMS. Thirdly, the CSC could not clarify and assist the former AMS and Chapter Officials on how to complete the various tasks to implement the CAP. Furthermore, there was no initiative by the Chapter to seek training or technical assistance to overcome challenges with implementing the CAP. Lastly, there is no monitoring that detects problems or barriers in a timely manner and identifying solutions to improve accountability.

Overall, the Chapter did not implement its corrective action plan, but also did not effectively implement its FMS policies and procedures. As a result, this finding remains unresolved.

Prior to October 2022, the Crownpoint Agency Administrative Service Center was overseeing this Chapter. However, based on recent changes, the Fort Defiance Agency Administrative Service Center is now responsible for assisting and monitoring the Chapter. As such, they are currently assisting the chapter with processing checks due to the vacant AMS position. However, there is a greater need for further training and technical assistance to facilitate increased knowledge and skill sets that will be needed for the chapter administration and officials to successfully implement the remaining corrective measures. There is also a need for continuous monitoring of chapter financial activities by the Administrative Service Center to ensure compliance with applicable policies and procedures.