

RESOLUTION OF THE
BUDGET AND FINANCE COMMITTEE
OF THE NAVAJO NATION COUNCIL

23RD NAVAJO NATION COUNCIL - Third Year, 2017

AN ACTION

RELATING TO THE RESOURCES AND DEVELOPMENT COMMITTEE AND THE BUDGET AND FINANCE COMMITTEE; ACCEPTING THE DEPARTMENT OF WATER RESOURCES \$3 MILLION SUPPLEMENTAL APPROPRIATION INTERNAL AUDIT SUBMITTED BY THE OFFICE OF THE AUDITOR GENERAL AND APPROVING THE CORRECTIVE ACTION PLAN SUBMITTED BY THE DEPARTMENT OF WATER RESOURCES

BE IT ENACTED

Section One. Authority

- A. The Resources and Development Committee is a standing committee of the Navajo Nation Council with oversight authority over the Chapters of the Navajo Nation. 2 NNC §§500(A), 501(C)(1). The Resources and Development Committee as the oversight committee of the Navajo Nation Department of Water Resources and is to receive reports of audits and corrective action plans regarding the Department of Water Resources. 12 NNC §7(E).
- B. The Budget and Finance Committee is a standing committee of the Navajo Nation Council. 2 NNC §300(A). The Budget and Finance Committee is charged with receiving and approving audit reports from the Auditor General. 12 NNC §6(A), 12 NNC §7(D).

Section Two. Findings

- A. The Office of the Auditor General in conjunction with REDW LLC, Certified Public Accountants have completed the Department of Water Resources \$3 Million Supplemental Appropriation Internal Audit, Report No. 16-20, which is attached as Exhibit A.

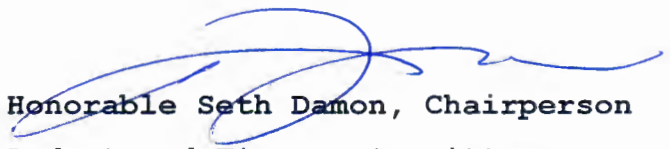
B. The Department of Water Resources' Corrective Action Plan is attached as Exhibit B.

Section Three. Acceptance and Approval

- A. The Navajo Nation hereby accepts the Audit Report No. 16-20, Department of Water Resources \$3 Million Supplemental Appropriation Internal Audit, attached hereto as Exhibit A, and approves the Department of Water Resources Corrective Action Plan, attached hereto as Exhibit B.
- B. The Navajo Nation hereby directs that copies of the Department of Water Resources Corrective Action Plan be provided to the Office of the President and the Vice President and the Resources and Development Committee, as part of their oversight responsibility for the Department of Water Resources.
- C. The Navajo Nation hereby directs the Department of Water Resources to submit a written status report on its progress in implementation of the Corrective Action Plan to the Office of the Auditor General six months after the approval of this resolution.
- D. The Navajo Nation hereby directs the Office of the Auditor General to review the written status report to be submitted by the Department of Water Resources and report to the Resources and Development Committee, as well as the Budget and Finance Committee.
- E. The Navajo Nation hereby directs the Office of the Auditor General to conduct a follow-up review twelve months after the approval of this resolution to verify to actions claimed to have been taken by the Department of Water Resources, to issue a written follow-up report indicating the Department of Water Resources progress in implementing the Corrective Action Plan, and to make recommendations to the Resources and Development Committee, as well as the Budget and Finance Committee.

CERTIFICATION

I hereby certify that the foregoing resolution was duly considered by the Budget and Finance Committee of the Navajo Nation Council at a duly called meeting held at Window Rock, Navajo Nation (Arizona), at which a quorum was present and that the same was passed by a vote of 3 in favor, 0 opposed, this 17th day of January, 2017.



Honorable Seth Damon, Chairperson
Budget and Finance Committee

Motion: Honorable Lee Jack, Sr.

Second: Honorable Tom T. Chee

M-E-M-O-R-A-N-D-U-M

TO : Levon Henry, Chief Legal Counsel
OFFICE OF LEGISLATIVE COUNSEL

FROM : 
Elizabeth Begay, CIA, CFE
Auditor General
OFFICE OF THE AUDITOR GENERAL

DATE : August 18, 2016

SUBJECT : Request for Legislation -Department of Water Resources

The Office of the Auditor General in conjunction with REDW LLC, Certified Public Accountants have completed the Department of Water Resources \$3 Million Supplemental Appropriation Internal Audit. Therefore, we request your office to prepare the legislation "An Action Relating to Resources and Development and Finance; Accepting the Department of Water Resources Internal Audit submitted by the Office of the Auditor General and approving the Corrective Action Plan submitted by the Department of Water Resources. The legislation sponsor will be Council Delegate Davis Filfred.

Attached as Exhibit "A" is Audit Report No. 16-20 "Department of Water Resources \$3 Million Supplemental Appropriation Internal Audit", and Exhibit "B" is the Corrective Action Plan submitted by the Department of Water Resources.

If you have any questions, please contact our office at extension 6303. Thank you.

Attachment

Xc: Davis Filfred, Sponsor
NAVAJO NATION COUNCIL
Chrono



OFFICE OF THE AUDITOR GENERAL

The Navajo Nation

Department of Water Resources \$3 Million Supplemental Appropriation Internal Audit

Report No. 16-20
April 2016

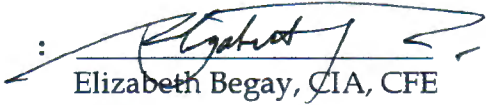
Performed by:
REDW LLC



M-E-M-O-R-A-N-D-U-M

TO : Najam Tariq, Principal Geologist
Technical, Construction and Operations Branch
DEPARTMENT OF WATER RESOURCES

: Raymond Benally, Department Manager III
DEPARTMENT OF WATER RESOURCES

FROM : 
Elizabeth Begay, CIA, CFE
Auditor General
OFFICE OF THE AUDITOR GENERAL

DATE : April 08, 2016

SUBJECT : Department of Water Resources - \$3 million Supplemental Appropriation
Internal Audit

The Office of the Auditor General herewith transmits Audit Report No. 16-20, Department of Water Resources - \$3 million Supplemental Appropriation Internal Audit. The internal audit was conducted, in conjunction with REDW LLP, Certified Public Accountants to determine whether the Department of Water Resources expended the \$3 million in accordance with the intent of the Navajo Nation Council.

The auditors reported five (5) findings:

- Project expenses and status were not adequately tracked
- \$3 million supplemental appropriation expense listing was not accurate
- Certain goal statements of the supplemental appropriation were not completed
- Actual expenses exceeded budgeted expenses
- Incorrect object codes utilized for purchases

The audit report provides recommendations to correct the reported findings. The Department of Water Resources/Technical, Construction and Operations Branch have agreed to resolve the audit findings.

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

xc: Bidtah Becker, Division Director
DIVISION OF NATURAL RESOURCES
Chrono

Department of Water Resources – \$3 million Supplemental Appropriation Internal Audit

Executive Summary

Ms. Elizabeth Begay, Navajo Nation Auditor General
Office of the Auditor General – Navajo Nation

REDW performed an internal audit to determine if the \$3 million supplemental appropriation expended by the Department of Water Resources (DWR) was adequately tracked and spent in accordance with the intent of the Navajo Nation Council (NNC). To gain an understanding of the processes and controls in place, we interviewed selected personnel and read related Resolutions of the NNC.

We obtained a listing from the DWR of all expenditures (expense listing) that related to the \$3 million appropriation. We tested the accuracy of the listing through various comparisons and analysis. We performed a high level budget to actual comparison for the appropriation. We selected a sample of 60 expenditures from the expense listing and determined if they were accurately recorded, properly supported and approved and appeared reasonable and allowable. We assessed the DWR's project tracking process for adequacy and performed three site visits to verify projects were completed. We utilized all of the information obtained and the results of our audit testing to assess whether the \$3 million appropriation appeared to be used for its intended purpose.

Summary of Findings and Recommendations

Project Expenses and Status were not Adequately Tracked – The DWR did not have an adequate system in place for tracking individual project requests, the related condition of the site/asset prior to work being performed, the repairs and labor costs for completing those projects, the status of pending projects and the ultimate completion of each project. As a result, expenses could not be tracked to specific projects and the DWR could not show exactly what all was completed with the funds. An adequate project tracking system should be implemented.

\$3 million Supplemental Appropriation Expense Listing was not Accurate – The expenses related to the \$3 million supplemental appropriation were tracked in a spreadsheet (expense listing) maintained by the DWR. This listing was the only accounting to show how the appropriation was spent. There were many inconsistencies and errors in the expense listing resulting in an inaccurate accounting of how the funds were spent.

Certain Goal Statements of the Supplemental Appropriation were not Completed – Two of the goal statements (i.e., projects) that were supposed to be completed with the supplemental appropriation were not completed. A deep water well that was supposed to increase livestock water was never pursued, and a 24,000 gallon water storage tank that was supposed to provide additional livestock water was never fully completed. If there are changes to the anticipated projects that will be completed with a supplemental appropriation, the goal statements should be updated and approved by the NNC. An adequate project tracking system, that includes tracking the current status of projects, should be implemented.

Actual Expenses Exceeded Budgeted Expenses – Expenses were charged to line items that did not have supplemental appropriation budget capacity. This resulted in approximately \$32,500 of budget overages for those line items. The budget amendment process was not followed and approval from the NNC was not obtained. If possible, supplemental appropriations should be set up with separate budgets in the Financial Management Information System (FMIS) to allow for easier tracking. Otherwise, the budget tracking process internally should be improved to ensure the budget amendment process is followed and that NNC approval is updated.

Incorrect Object Codes Utilized for Purchases – There were several instances, totaling approximately \$236,000, where the object code utilized for the purchase was not correct, which results in inaccurate financial reporting including budget to actual comparisons. The DWR should implement a formal review process where the object codes are checked prior to processing a purchase request.

Further details on these findings are included in the attached report.

REDW LLC

Albuquerque, New Mexico
April 6, 2016

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Office of the Auditor General – Navajo Nation
Department of Water Resources
\$3 million Supplemental Appropriation Internal Audit

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Department of Water Resources – \$3 million Supplemental Appropriation Internal Audit Report

Ms. Elizabeth Begay, Navajo Nation Auditor General
Office of the Auditor General – Navajo Nation

Introduction and Background

The Department of Water Resources (DWR) is primarily funded through annual appropriations from the Navajo Nation central government. In fiscal year 2013, the DWR received a supplemental appropriation of \$3 million to mitigate extreme drought conditions on the Navajo Nation. Accordingly, the DWR proposed to use the funds to achieve the following performance areas:

- Increase livestock water by drilling deep well;
- Increase livestock water facilities by rehabilitation/repairs of deep water wells;
- Provide livestock water through increased storage and distribution;
- Provide repair/maintenance and transport services of equipment used in construction and maintenance; and,
- Operate and maintain livestock water facilities, domestic systems and major irrigation systems.

After the \$3 million supplemental appropriation was expended, there were concerns raised regarding whether or not the DWR utilized the funds appropriately. We performed the internal audit described below at the request of the Navajo Nation Office of the Auditor General (NNOAG) to determine if adequate documentation is on file to support that the \$3 million supplemental appropriation expended by the DWR was spent in accordance with the intent of the Navajo Nation Council (NNC), as defined above.

Below is a table that presents how the \$3 million supplemental appropriation was spent according to the expense listing provided by DWR.

<u>Account Code</u>	<u>Classification</u>	<u>Amount</u>
3000	Travel Expense	\$ 159,330.41
4000	Supplies	1,299,603.56
5000	Lease and Rental	52,941.54
6000	Repairs and Maintenance	447,297.37
7000	Special Transaction	2,867.24
9000	Capital Outlay	<u>1,040,451.79</u>
	Total	<u>\$ 3,002,491.91*</u>

*Refer to Finding II related to the discrepancies identified during the audit. Based on the discrepancies identified, it did not appear that the appropriation was overspent; however, it is likely that there are no remaining funds.

We held an entrance conference with personnel from the NNOAG and management of the DWR on October 19, 2015, to discuss the timing and scope of the audit. We held an exit conference on March 16, 2016, to discuss the findings and recommendations. Client responses to the findings below are presented at the end of this report.

Department Purpose and Organization

The DWR is within the executive branch under the Navajo Nation Division of Natural Resources and is the primary department responsible for the protection, management and development of the water resources of the Navajo Nation. One key responsibility is to design, construct, and rehabilitate water facilities for livestock and irrigation uses. There are two domestic water systems that are maintained by the DWR. Accordingly, the DWR maintains construction equipment to support construction, mechanical repair and transportation services.

The DWR operates under the direction of the department director and is composed of the following branches: Safety of Dam, Technical Construction and Operation, and Water Management. These branches are described in the following sections.

Safety of Dam – With a staff of approximately 22, the Dam Safety Branch oversees construction repairs on 14 high hazardous dams, provides general maintenance and monitoring, surveys land for withdrawal, and develops safety plans, emergency action plans, and early warning systems. The monitoring programs include staff gages to measure water levels, piezometers to measure uplift pressures, and weirs to measure outflow and seepage losses.

Technical, Construction and Operations (TCOB) – The TCOB within DWR consist of two main programs – Operations and Maintenance Program and the Technical and Construction program. The operations staff employs approximately 58, and operates/repairs/maintains one public water system, eight irrigation systems including diversions, siphons, main canals, ditches, laterals, more than 900 windmills, more than 1,500 storage tanks and hundreds of miles of water lines throughout the Navajo Nation. With a staff of approximately 44, the technical design and construction staff plan, design, construct, and rehabilitate water facilities for livestock, domestic, and irrigation uses. This scope of work includes design and construction of wells, pipelines, dams, erosion control structures, irrigation systems, irrigation diversions, storage tanks, and stock-ponds.

This staff provides construction support for the DWR facilities. This branch repairs, maintains and transports heavy equipment used for all activities under taken by both the Operations and Maintenance and the Technical and Construction programs within the TCOB.

Water Management – The Water Management Branch (WMB) monitors the Navajo Nation's water resources, protects its water rights, restores its watersheds and helps to manage the water resources. This branch has a staff of 25. The WMB administers cooperative agreements with the Bureau of Reclamation, the Bureau of Land Management, the Bureau of Indian Affairs, the United States Geological Survey, the Army Corps of Engineers and other state and federal agencies. The WMB maintains water resource databases and distributes hydrologic information. The WMB maintains an extensive database of groundwater well information, which is the primary data source for groundwater information on the Navajo Nation. The WMB wells database includes well data from more than 8,000 wells on the reservation. Well files, including well logs and aquifer data, are maintained on more than 2,000 wells. The Water Code Administration provides data on new wells from the well drilling permits and the water use permits. Through water well permitting, the WMB collects and analyzes groundwater data from the well permits. The information in the well database can be displayed for local residents and agencies interested in drilling new wells, or for monitoring short-term and long-term groundwater trends.

Objective, Scope, and Methodology

The objectives of this internal audit were to:

1. Determine if an accurate detailed listing of expenditures that related to the \$3 million supplemental appropriation existed;
2. Determine if the DWR was maintaining a detailed project tracking system to show all projects completed with the \$3 million supplemental appropriation including the detailed expenses and the current status of each project; and,
3. Assess whether selected expenses appeared to be utilized to further the goal of accomplishing the five proposed performance areas for the supplemental appropriation and the overall intent of the NNC for the supplemental appropriation.

Policies and Procedures and Interviews: In order to gain an understanding of processes and controls in place at the DWR for tracking and utilizing the supplemental appropriation, we read the related resolutions of the NNC (CJY-44-13 and CS-47-13) and interviewed or received information from the following personnel:

1. Najam H. Tariq, Branch Director – Technical, Construction & Operations Branch
2. Chris Mike, Administrative Service Officer
3. Mildred (Millie) Begay, Administrative Assistant
4. James Hale, Principal Engineering Technician
5. Merrill Burbank, Senior Construction Supervisor
6. Don Daswood, Senior Construction Manager

Sample Selection and Testing: Based on our understanding of the DWR and how the \$3 million supplemental appropriation was utilized and tracked, we assessed the related risks and developed the detailed audit procedures presented below.

1. *Accuracy of Expense Listing:* We obtained a listing from the DWR of all expenditures (expense listing) that related to the \$3 million supplemental appropriation. To test the accuracy of this listing, we performed the following:
 - a. Gained an understanding of how the listing was prepared;
 - b. Agreed all expenditures to the general ledger (G/L) detail to ensure the funds were actually expended; and,
 - c. Performed a high-level analysis of the associated budget category to determine if the expense was charged to an appropriate approved budget line item.
2. *Budget to Actual Comparison:* We compared the Program Budget Summary according to the approved Resolutions, the budget and actual amounts on the expense listing provided by DWR, and the actual expenses in the G/L to assess whether the budget was accurately input in the expense listing and that the recorded expenditures were in compliance with the budget.
3. *Appropriation Expenditures:* Utilizing the DWR expense listing, we selected a sample of 60 expenditures, based on a high level of risk assessed. The sample was selected based on 50% random selection and 50% judgmental selection based on our understanding of the associated risk. For each of the 60 expenditures selected, we performed the following:
 - a. Assessed the reasonableness of the expense category charged based on the actual description of the expense.
 - b. Determined if adequate supporting documentation was maintained, including quotes and/or bid documentation, to support that a formal evaluation and award process occurred.
 - c. Assessed whether contract documents, purchase requisitions/purchase orders, unaltered receipts/invoices, and any other required expenditure support was on file with the proper approvals required by the Procurement Policy.
 - d. Determined if each expenditure was accurately posted to the G/L (i.e., correct expense category and amount).
 - e. Determined if expenses were properly tracked, including where the related materials or services were used (i.e., which project).
 - f. Determined if the expense appeared to meet a program purpose listed in the performance areas for the supplemental appropriation.
 - g. Analyzed the expense and determined if it appeared to be a reasonable expense and in compliance with the original NNC intent, which was to mitigate the extreme drought conditions that existed on the Navajo Nation.
4. *Project Tracking:* Through discussions with DWR personnel, gained an understanding of the systems in place to track the various projects completed with the \$3 million appropriation by the DWR.

5. *Site Visits:* Judgmentally selected three completed projects (water storage tanks). These three projects were selected based on identifying projects related to the sample at step #3 above. For each project, we performed a site visit to assess whether they actually existed and if the related water storage tank was operational.

Findings and Recommendations

Finding I: Project Expenses and Status were not Adequately Tracked

<i>Criteria:</i>	Resolution CJY-44-13, which approved the \$3 million supplemental appropriation, required the DWR to allocate the supplemental funding to accomplish purpose of mitigating the extreme drought conditions currently existing on the Navajo Nation. The DWR submitted four performance areas to the NNC, with related goal statements (projects), in which they intended to accomplish with these funds. In order to show compliance with both the Resolution and the goal statements, the DWR must have a good system in place for tracking projects completed and the related expenses.
<i>Condition:</i>	The DWR did not have an adequate system in place for tracking individual project requests, the related condition of the site/asset prior to work being performed, the repairs and labor costs for completing those projects, the status of pending projects, and the ultimate completion of each project. During our analysis of 60 expenditures made with supplemental appropriation funds, there were 55 instances where a project was not specified on the purchase documentation, and there was no means of tracking these expenses to a corresponding project that was completed. In three of these instances, large quantities of items were being purchased for general DWR warehouse supplies.
<i>Effect:</i>	A total of \$1,873,120 (or 98%) of the supplemental appropriation expenses tested, including individual parts and labor costs, could not be traced to specific projects completed. Ultimately, this prevented the DWR from being able to show exactly what was completed with the funds and if the required performance areas were achieved. Therefore, the supplemental appropriation funds could have been utilized for projects or programs outside the intent established by the NNC.
<i>Cause:</i>	The \$3 million supplemental appropriation was not set up and tracked separately in the Financial Management Information System (FMIS), and the internal DWR process for tracking the related expenses did not include tracking expenses to specific projects. An adequate project tracking process, from project request through project completion, was not in place.
<i>Recommendation:</i>	The DWR should implement a project tracking system showing all projects currently requested, in process/pending, and completed. The parts and labor used for each project should be tracked to allow for the tracking of expenses by project completed. Supplemental appropriation funds should be tracked separate from general funds to allow the DWR to provide adequate documentation for exactly where funds are spent.

Finding II: \$3 million Supplemental Appropriation Expense Listing was Not Accurate

Criteria:	Best practices, as well as generally accepted accounting principles (GAAP), require expenses to be accurately tracked and reported. Best practices also require that when funds are appropriated for a specific purpose, an adequate system must be in place to accurately track expenses related to the appropriation to support that the funds were used appropriately and in compliance with the intent of the appropriation.
Condition:	The FMIS was not set up to allow for the separate tracking of the DWR supplemental appropriation. The DWR developed an internal spreadsheet (i.e., expense listing) to track the actual expenses incurred in relation to the funds. During our analysis of 60 expenses included on the expense listing, we identified the following inconsistencies that implied that the listing was not reliable: • One instance in which an expense for \$4,723 was included on the expense listing; however, the related services were not performed and payment was never made. This resulted in a \$4,723 overstatement of the amounts charged to the supplemental appropriation. • One instance in which an expense was recorded in the expense listing for \$25,577; however, the amount recorded on the G/L and actually expended was \$24,828. This resulted in a \$749 overstatement of the amounts charged to the supplemental appropriation. • One instance in which an expense for \$2,080 was included on the expense listing and the related goods were received in June 2014; however, based on supporting documentation and the G/L, the invoice was never paid. This resulted in a \$2,080 overstatement of the amounts charged to the supplemental appropriation. • Two instances in which the amounts recorded in the sub-ledger did not agree to the amounts recorded in the G/L. These variances could have resulted in over/understatements of the amounts charged to the supplemental appropriation. • Six instances in which there were amounts recorded on the sub-ledger that were not recorded on the G/L as either a normal expense or an Interdepartmental Charge Requisition. This resulted in a potential \$1,941 overstatement of the amounts charged to the supplemental appropriation. • Seven instances where the amounts recorded on the expense listing did not agree to the amounts reported on the G/L, resulting in a net \$1,590 overstatement of the amounts charged to the supplemental appropriation. • One instance where \$7,950 was recorded in the expense listing for "general operating supplies"; however, supporting documentation for the expense could not be located. Given that this expense was not supported, there was no way to determine if this truly related to the appropriation which could have resulted in a \$7,950 overstatement of the amount charged to the supplemental appropriation. The combined instances above resulted in approximately \$20,000 in potential overstatements of the expenses charged to the supplemental appropriation.

Finding II: \$3 million Supplemental Appropriation Expense Listing was Not Accurate — continued

- Effect:* A reliable accounting of the \$3 million supplemental appropriation was not available. The lack of a reliable expense listing results in inaccurate budget to actual comparisons and tracking. A portion of the supplemental appropriation may not have been expended on allowable costs in accordance with the related performance areas approved by the NNC.
- Cause:* The DWR had a process where expenses were added to the expense listing when the purchase requisition was originally created; however, there was no process to trace expenses to the G/L after payment was processed. The tracking process was completely manual, and its accuracy was not verified.
- Recommendation:* When supplemental appropriations are received that require separate tracking of the related expenses, the tracking should either be set up within the FMIS, or a more reliable means of tracking expenses should be developed internally. Consider implementing a formal review process, after the fact, to ensure that expenses recorded on the expense listing were accurately posted and agree to supporting documentation and the G/L. Variances should be investigated and resolved timely.

Finding III: Certain Goal Statements of the Supplemental Appropriation were not Completed

- Criteria:* Exhibit A to Resolution CJY-44-13 presents program performance criteria that are applicable to the \$3 million supplemental appropriation. For each of the performance criteria, the DWR submitted goal statements of how the criteria will be achieved. The following were two of those statements:
- a) Drill deep water well by 9/30/2013 to achieve the performance area of "Increase livestock water by drilling deep wells."
 - b) Construct a 24,000 gallon water storage tank to achieve the performance area of "Providing livestock water through increased storage and distribution."
- Condition:*
- a) The DWR did not drill a deep water well with the supplemental appropriation.
 - b) The 24,000 gallon water storage tank was constructed; however, it was still not fully operational at the time of this internal audit as it was missing rubber gaskets and bolts to secure the door. The internal audit occurred approximately two years following the initial construction of the tank.
- Effect:*
- a) The performance area "increase livestock water by drilling deep wells" was not achieved.
 - b) The Navajo community members that would utilize the new 24,000 gallon water storage tank have not been able to see the benefits of the increased water capacity and were still being served by the existing 4,000 gallon tank.

Finding III: Certain Goal Statements of the Supplemental Appropriation were not Completed — continued

Cause:

- a) DWR management felt that there were better uses of the supplemental funds and, therefore, did not proceed with drilling a deep well. When this decision was made, there was no revision of the original program performance criteria or approval sought from the NNC.
- b) An effective project tracking system was not in place to track the current status of projects. Parts had been requested 2 times for the tank; however, they were never received. Adequate follow-up did not occur to ensure the project was completed timely.

Recommendation:

- a) When changes to the planned/approved use of supplemental appropriations are expected, the program performance criteria and detailed goal statements should be amended to show where the funds will be spent. Resource and Development Committee approval should be obtained prior to making significant changes to the original plan to ensure all intended results of the supplemental appropriation are still achieved. Significant should be defined as any change that would change the outcome of the stated performance criteria such as deciding not to complete a project.
- b) Refer to recommendation #1 above related to developing an effective project tracking system. Project tracking should include tracking the current status of all projects and a periodic review of the status to ensure projects are being completed and finalized in a timely manner.

Finding IV: Actual Expenses Exceeded Budgeted Expenses

Criteria:

Exhibit A to Resolution CJY-44-13 presented the Detailed Line Item Budget and Justification for the \$3 million supplemental appropriation. The Budget P&P require that the budget be adhered to, or an amendment must be prepared and approved.

Condition:

During our analysis of 60 expenses related to the \$3 million supplemental appropriation, we identified instances where expenses were charged to a budget line item that did not have capacity resulting in a budget overage. Specifically, we identified:

- Two instances totaling approximately \$20,000 where the purchases were coded to an account that did not have any budget which would mean that the purchases were not properly authorized for use under the supplemental appropriation.
- Two instances where an individual line item in the budget was over expended. The total over-expended was approximately \$12,500.

Effect:

Lack of procedures over the budget monitoring process results in either the supplemental appropriation being spent on unapproved expenses, or requires the use of other funding sources to cover the overage. This compounded to the other findings and further supports that the DWR could not demonstrate exactly what was accomplished with the funds. The instances above resulted in approximately \$32,500 of unauthorized expenses under the supplemental appropriation. However, the supplemental appropriation was not over-expended in total as there were other budget deficits to offset these overages.

Finding IV: Actual Expenses Exceeded Budgeted Expenses — continued

Cause: The budget for the supplemental appropriation was not tracked separately in the FMIS, as the DWR's budget is tracked as a whole (i.e., including all DWR funds, not just the \$3 million). This resulted in the DWR being solely responsible for tracking the use of budgeted funds, rather than involving the Purchasing or General Accounting departments. When DWR personnel encountered situations where related purchases needed to be made, they would either charge the line item resulting in a budget overage or charge the wrong line item as described in finding #V below.

Recommendation: For future supplemental appropriations that have a separate budget, the DWR should inquire if the budget and funds could be established and tracked separately in the FMIS system. If this is not possible, the DWR should ensure that the budget tracking process internally ensures that the budget amendment process is followed and that appropriate approval is obtained when an overage is expected to ensure compliance with the Budget P&P.

Finding V: Incorrect Object Codes Utilized for Purchases

Criteria: Purchase requisitions should be coded to correct object codes (G/L accounts such as "4000 Supplies") to allow for accurate financial accounting and reporting, as well as meaningful budget to actual analysis.

Condition: During our analysis of 60 expenses related to the \$3 million supplemental appropriation, we identified 16 instances, which totaled approximately \$236,000, where the object code utilized for the purchase was not correct.

Effect: The DWR may not portray an accurate overview of financial reporting if purchases are being improperly coded, and budget to actual comparisons will not be accurate. Incorrect coding contributes to the other findings reported and further supports that the DWR could not demonstrate exactly what all was accomplished with the \$3 million appropriation. For the 16 instances identified, this resulted in coding errors of approximately \$236,000.

Cause: In several of the instances of incorrect coding, it appeared that the reason was because there was not budget capacity for the supplemental appropriation in the correct object code. Therefore, a similar code was utilized that did contain budget capacity. In a few instances, it appeared the incorrect coding was merely an error.

Recommendation: The DWR should implement a formal review process where the object codes are checked prior to processing a purchase request. If incorrect codes are used, they should be corrected prior to processing the purchase. In cases where the correct object code does not have budget capacity, the budget amendment process should be initiated as described in recommendation #IV above.

Conclusion

The findings identified in this internal audit report showed that there was a lack of a project tracking mechanism in place for individual projects related to the \$3 million supplemental appropriation and the related costs, the DWR expense listing was not accurate and had many coding errors, and actual expenses exceeded budgeted expenses in certain categories. These accuracy and reporting issues, when combined, compounded the issues. In addition, certain goal statements related to the supplemental appropriation were not completed. Based on these results, we were unable to determine if the DWR spent the full \$3 million supplemental appropriation in accordance with the intent of the NNC including whether the five performance areas related to the appropriation were completed.

* * * * *

The above represents the items that constitute significant conditions. Other, less significant items were addressed with management during the audit and are not included.

We received excellent cooperation and assistance from DWR personnel during the course of our testing. We very much appreciate the courtesy and cooperation extended to our personnel. We would be pleased to meet with you to discuss our findings and answer any questions.

REDW LLC

Albuquerque, New Mexico
April 6, 2016

CLIENT RESPONSE



**THE NAVAJO NATION
DEPARTMENT OF WATER RESOURCES**

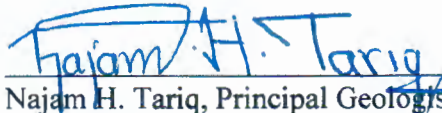
P.O. Box 678 • Fort Defiance, Arizona 86504 • (928) 729-4003 • FAX (928) 729-4029

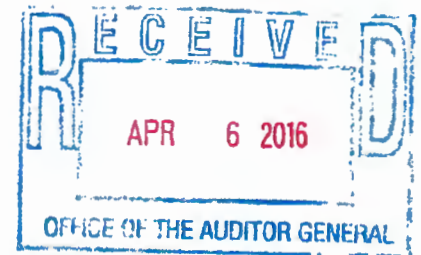
Russell Begaye
President

Jonathan Nez
Vice-President

MEMORANDUM

TO Elizabeth Begay, CIA, CFE
Auditor General
OFFICE OF THE AUDITOR GENERAL

FROM 
Najam H. Tariq, Principal Geologist/Branch Director
Technical, Construction and Operations Branch
DEPARTMENT OF WATER RESOURCES



DATE April 5, 2016

SUBJECT Response to Department of Water Resources \$3 million Supplemental Appropriation Internal Audit

In response to the final draft of the Department of Water Resources \$3 Million Supplemental Appropriation Internal Audit presented at the exit meeting on March 16, 2016. We present this written response to the findings in the draft audit report.

First of all, we appreciate the efforts of the Auditor General in identifying any potential issues and subsequent recommendations. At the time of the supplemental funds were provided to our program an Emergency Declaration of Drought Conditions impacting the Navajo Nation had been in place. Our program was charged with the oversight to provide adequate water for livestock and agricultural usage. We successfully expended the appropriations following the Navajo Nation procurement process with the limited time frame.

The recommendations and conclusions noted in the report are areas in which the program will seek solutions. First and foremost would be the implementation of a project tracking mechanism that would enhance our capabilities and this could be accomplished with software, training and time to implement these recommendations. Request that any additional appropriations receive a separate account number for more accurate tracking capabilities. The Navajo Nation procurement process ensures that all expenditures of funds meets these requirements, any changes in coding errors would need to be address by the appropriate programs charged with those responsibilities for the entire nation. The findings will be reviewed and any corrective actions will be address.

Memo: E.Begay, Auditor General
RE: Response to DWR \$3Million Supplemental Appropriation Internal Audit
Date: April 5, 2016
Page: Two

The Technical, Construction and Operations Branch (TCOB) has provided update reports throughout the funding timeframe to provide transparency to appropriate leaders and reflect any changes in objectives. All projects undertaken are now completed and received continual operational and maintenance attention from our established field office personnel. Our staff continues to accomplish a tremendous amount of work to address the tremendous workload which they are charged.

We appreciated the efforts of the Auditor General's office and look forward to implementing recommendations. If you have any questions, please contact Mr. Christopher Mike, Ms. Mildred Begay or myself at (928) 729-4003.

cc: Raymond Benally, DWR
Bidtah Becker, Executive Director, NNDNR
Evangeline Curley Thomas, Deputy Director, NNDNR
File



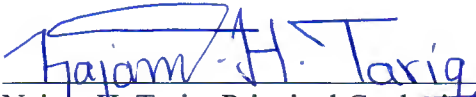
THE NAVAJO NATION

RUSSELL BEGAYE
JONATHAN NEZ



MEMORANDUM

TO: Elizabeth Begay, CIA, CFE
Auditor General
OFFICE OF THE AUDITOR GENERAL

FROM: 
Najam H. Tariq, Principal Geologist/Branch Director
Technical, Construction and Operations Branch
DEPARTMENT OF WATER RESOURCES

DATE : June 03, 2016

SUBJECT: Response to Department of Water Resources \$3 million Supplemental Appropriation Internal Audit – Corrective Action Plan

In response to the Department of Water Resources \$3 Million Supplemental Appropriation Internal Audit – Corrective Action Plan submitted to the Office of the Auditor General, we present the attached corrective action plan to the audit report.

At the time of the supplemental funds were provided to our program an Emergency Declaration of Drought Conditions impacting the Navajo Nation had been in place. Our program received the funding on July 30, 2013 and was expected to expend funds by September 30, 2013. During this two month window to expend funds per established procurement policies, our office was able to expend two-thirds of the supplemental allocation. An authorized carry over of a remaining balance of \$965,000 was approved and place into our budget on April 4, 2014 by the Office of Management and Budget.

During deliberation on the supplemental funds, the Navajo Nation Council concern was that no supplemental funding should be spent on the purchase of furniture or computers. No funds were spent on purchase of computers or furniture. Further, no funds were spent for staff to attend conferences or trainings. All funds were strictly spent on providing direct services to our grass roots Navajos at the chapter level by mainly repairing/installing windmills, storage tanks,

waterlines, water wells, irrigation water systems, rehabilitating existing earthen dams and by repairing and maintaining equipment used for these purposes.

We successfully expended the \$3 Million Supplemental Funding appropriations by following the Navajo Nation procurement process within a limited time frame. We accomplished all tasks associated with the \$3 Million Supplemental Funding.

The recommendations and conclusions noted in the audit report are areas in which the program is seeking solutions. The program will improve its project tracking mechanism to address the audit concerns. For any future supplemental funding, Technical, Construction and Operations Branch (TCOB), Department of Water Resources, will request that Office of Management and Budget (OMB) and the Navajo Nation Council assign a separate account number for more accurate tracking capabilities. The Navajo Nation procurement process ensures that all expenditures of funds meet all established and applicable policies, procedures, laws, rules and regulations. Any changes in coding errors would need to be addressed by the appropriate programs charged with those responsibilities for the entire Nation. Meanwhile, we will continue to use the most current established/approved codes, policies and procedures applicable to expenditures of the allocated budget funds. The program is committed to address findings and implement the attached "Corrective Action Plan" to make improvements based on audit recommendations.

We appreciated the efforts of the Auditor General's office and look forward to implementing recommendations. If you have any questions, please contact Mr. Christopher Mike, Ms. Mildred Begay or myself at (928) 729-4003.

cc:

Bidtah Becker, Executive Director, NNDNR
Evangeline Curley Thomas, Deputy Director, NNDNR
Raymond Benally, DWR
File

Department of Water Resources
DIVISION OF NATURAL RESOURCES
 Corrective Action Plan
 Report No. 16-20 - \$3 Million Supplemental Appropriation Internal Audit

Finding/Sub Finding	Corrective Action	Person Responsible	Timeline
Finding 1: Project Expenses and status were not adequately tracked			
Issue: The DWR did not have an adequate system in place for tracking individual project requests, the related condition of the site/asset prior to work being performed, the repairs and labor costs for completing those projects and the ultimate completion of each project. As a result, expenses could not be tracked to specific projects and the DWR could not show exactly what all was completed with the funds.	1. The Technical, Construction and Operations Branch (TCOB) will request that any future supplemental appropriations receive from OMB a separate account number to ensure accuracy in accounting the expenditure to the supplemental appropriation. 2. TCOB will continue to use and improve its present project/accounting tracking system by specifically tracking the following: 1) individual project requests (categorize by routine, minor, major), 2) condition of the site/asset prior to work being performed, 3) daily work/cost reports, 4) status (pending, in process, or completed).	TCOB Branch Director, Najam Tariq Christopher Mike, ASO Christopher Mike, ASO; TCOB supervisors	at time of budget request on-going
Finding 2: \$3 million Supplemental Appropriation Expense Listing was not Accurate			
Issue: The expenses related to the \$3 million supplemental appropriation were tracked in a spreadsheet (expenses listing) maintained by the DWR. This listing was the only accounting to show the appropriation was spent. There were many inconsistencies and errors in the expense listing resulting in a inaccurate accounting of how the funds were spent.	DWR/TCOB will develop a reliable tracking of expenses by: 1) implementing a review process that will verify expenses recorded on the expense listing were accurately posted, agree to supporting documentation and general ledger; 2) investigate variances and resolve timely	TCOB Branch Director and support staff (Mildred Begay, Rita Billman) Charlene Roanhorse (to resolve variances)	on-going

Department of Water Resources
DIVISION OF NATURAL RESOURCES

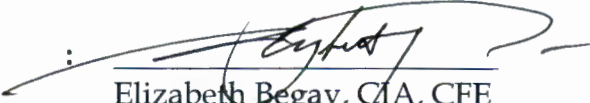
Corrective Action Plan

Report No. 16-20 - \$3 Million Supplemental Appropriation Internal Audit

Finding/Sub Finding	Corrective Action	Person Responsible	Timeline
Finding 3: Certain goal statements of the supplemental appropriation were not completed			
Issue: A deep water well to increase livestock water was never pursued, and a 24,000 gallon water storage tank to provide additional livestock water was never fully completed. If there are changes to the anticipated projects that will be completed with a supplemental appropriation, the goal statements should be updated and approved by the NNC.	in future, any changes in the scope of work will be made with approval of the oversight Budget and Finance committee for approval. Thereafter, approved amendment will be submitted to and Office of Management & Budget for their record.	TCOB Branch Director	
Finding 4: Actual expenses exceeded budgeted expenses			
Issue: Expenses were charged to line items that did not have supplemental appropriation budget capacity. This resulted in approximately \$32,500 unauthorized expenses due to budget overages for those line items.	DWR/TCOB will request OMB to set up separate account number on all supplemental appropriation. For regular NN appropriation, DWR/TCOB will track budget and follow budget amendment process.	TCOB Branch Director and support staff (Mildred Begay, Rita Billiman)	On-going
Finding 5: Incorrect object codes utilized for purchases			
Issue: There were several instances, totaling approximately \$236,000, where the object code utilized for the purchase was not correct, which results in inaccurate financial reporting including budget to actual comparisons.	The DWR will implement a formal review process to check the correct object codes, per approved Chart of Accounts from the Budget Instructions Manual, are used prior to processing a purchase request.	TCOB Branch Director and support staff (Mildred Begay, Rita Billiman; Christopher Mike, Charlene Roanhorse)	On-going

M-E-M-O-R-A-N-D-U-M

TO : Levon Henry, Chief Legal Counsel
OFFICE OF LEGISLATIVE COUNSEL

FROM : 
Elizabeth Begay, CIA, CFE
Auditor General
OFFICE OF THE AUDITOR GENERAL

DATE : August 18, 2016

SUBJECT : Request for Legislation -Department of Water Resources

The Office of the Auditor General in conjunction with REDW LLC, Certified Public Accountants have completed the Department of Water Resources \$3 Million Supplemental Appropriation Internal Audit. Therefore, we request your office to prepare the legislation "An Action Relating to Resources and Development and Finance; Accepting the Department of Water Resources Internal Audit submitted by the Office of the Auditor General and approving the Corrective Action Plan submitted by the Department of Water Resources. The legislation sponsor will be Council Delegate Davis Filfred.

Attached as Exhibit "A" is Audit Report No. 16-20 "Department of Water Resources \$3 Million Supplemental Appropriation Internal Audit", and Exhibit "B" is the Corrective Action Plan submitted by the Department of Water Resources.

If you have any questions, please contact our office at extension 6303. Thank you.

Attachment

Xc: Davis Filfred, Sponsor
NAVAJO NATION COUNCIL
Chrono