A Performance Audit
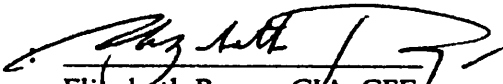## of the
Local Governance Support Centers

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

TO : Arbin Mitchell, Executive Director
DIVISION OF COMMUNITY DEVELOPMENT

FROM

Elizabeth Begay, CIA, CFE
Acting Auditor General

DATE : November 23, 2009

SUBJECT : A Performance Audit of the Local Governance Support Centers

The Office of the Auditor General, in conjunction with independent auditor Eliot M. Stenzel, CPA, CIA herewith transmit Report No. 10-01, a Performance Audit of the Local Governance Support Centers with findings and recommendations.

If you have any questions regarding this report, please call our office at (928) 871-6303.

Enclosure

xc: Harvey McKerry, Senior Program/Project Specialist (Ft. Defiance Agency)
Rodger D. Joe, Senior Program/Project Specialist (Shiprock Agency)
Regina Allison, Senior Program/Project Specialist (Western Agency)
Peggy Sue Nez, Senior Program/Project Specialist (Chinle Agency)
Anselm Morgan, Senior Program/Project Specialist (Eastern Agency)
LOCAL GOVERNANCE SUPPORT CENTERS
Eliot M. Stenzel, CPA, CIA
DREAMS COME TRUE, INC.
Chrono

A Performance Audit
of the
Local Governance Support Centers

Review performed by:
Eliot M. Stenzel, CPA, CIA

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November 18, 2009

Attention: Budget and Finance Committee of the Navajo Nation
Thru: Elizabeth Begay, Acting Auditor General
NAVAJO NATION OFFICE OF THE AUDITOR GENERAL (OAG)
P.O. Box 708
Window Rock, Arizona 86515

Dear Ms. Begay:

I have completed the above referenced audit as of July 31, 2009. This audit was performed under a contract between your organization and me during the period April 20, 2009 through July 31, 2009 and extended to September 30, 2009. The deliverable of this engagement is a table of contents and written report which immediately follow this Executive Summary.

The Navajo Nation is faced with three choices regarding the LGSC. (1) Modify the current system (2) Scrap the current system (3) Maintain the current system. This report is written assuming that the first choice is made – to modify the current system. Any decisions need to be made through a deliberative process considering the viewpoints of the principal stakeholders described on page 3 of the report.
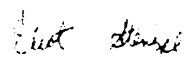
My objective in completing this engagement has been to offer positive ideas to address an area of concern for the Navajo Nation – the performance of Local Governance Support Centers. The heart of the report is the recommendations provided in the body of the report. They begin on page 16. Consideration and implementation of the recommendations in whole or in part can result in improved LGSC performance.

The theme of this report is <u>LGSC: Telling a Better Story.</u>

The report includes a description of the background of the Nation and the LGSC. The scope of audit, approach, and data gathered are also summarized in the report. Recommendations follow. Guidance to rate the LGSC is also provided. Finally concluding comments are offered to describe what is at stake going forward. A glossary is also included to explain often used acronyms and initials in the report.

I appreciate the opportunity to be of service to you, and look forward toward the future when I may be of service again. This report is confidential. The distribution of this report is at the discretion of the Office of Auditor General and in accordance with Title 12 of the Navajo Nation Code.

Very truly yours,

Eliot Stenzel

Eliot M. Stenzel

NATION AND LOCAL GOVERNANCE SUPPORT CENTERS OVERVIEW

The Navajo Nation (Nation) is one of the largest Native American Indian Tribes within the USA (United States of America). It straddles a physical area over the states of Utah, Arizona and New Mexico and is a sovereign entity within the southwest part of the USA. The Nation's Capitol is Window Rock, Arizona. The Nation's budget was $548 million and $584 million in the fiscal years ending September 30, 2008 and 2009 respectively. The Nation is comprised of a three tiered government with an executive, legislative and judiciary branch. There are operational divisions based out of Window Rock that carry out various governmental functions.

The Nation is further comprised of chapters designed to serve as local governments at the constituent level. There are 110 chapters within the three state area of the Nation. Chapters are served by 5 Local Governance Support Centers (LGSC).

The LGSC offices are located in Fort Defiance, Arizona / Chinle, Arizona / Shiprock, New Mexico /Crownpoint, New Mexico / Tuba City, Arizona. They are under the supervision and direction of the Window Rock based operational Division of Community Development (DCD).

LGSC budget was $1.96 and $1.98 million in fiscal 2008 and 2009 respectively.

GUIDING LEGISLATION

The Local Governance Act, Title 26 of the Navajo Nation Code (NNC) was established in 1998 (LGA). This legislation intends each chapter to operate with greater autonomy, similar to a municipal government, once certified as described in the following paragraph:

Subchapter 3, section 102 of the LGA requires the Navajo Nation Office of the Auditor General (OAG) Legislative Branch under paragraph (A) "shall review the Chapter's Five Management System (FMS) policies and procedures and recommend governance certification of the policies to the Transportation and Community Development Committee".

FMS
Accounting
Procurement
Recordkeeping
Personnel and Property Management

PLAN OF OPERATION (PO)

The 5 LGSC were established under the DCD with an implementing document called a PO. The purpose of the LGSC is to provide the following to the chapter governments.

1. Monitoring all Chapter funds including the Claims Trust Funds, Public Employment Funds, and all other Chapter allocations in accordance with applicable Navajo Nation, federal and state laws.

2. Providing administrative support and technical assistance to the chapter governments specifically relating to management and administrative development and comprehensive land use planning.
3. Facilitating governmental development by assisting Chapters with the implementation of the Five Management System policies and procedures for fiscal, property, personnel, procurement and record keeping management, as required by the Navajo Nation Local Governance Act, 26 N.N.C. Section 102
4. Providing financial and accounting services.
5. Providing Chapters with relevant data to obtain additional sources of funding.

The LGSC is designed to assist the chapters to become prepared for the review by the OAG as discussed under the paragraph Guiding Legislation. Procedurally, the LGSC recommends in writing to the OAG when a chapter is ready for review.

SUCCESSES include the following:
1. More than 70% of chapters have approved comprehensive land use plans.
2. Each office has a website to explain their purpose, provide online guidance, and contact information.
3. Each office develops periodic reports that describe activities of the period.
4. Ten chapters have LGA certification.
5. Since 2002 13 of 28 chapters appearing on the sanction list have had sanctions lifted.

INTERESTED STAKEHOLDERS
Certifying chapters under the LGA law is a collaborative effort between four elements of the Navajo Nation. Those four elements are (a) LGSC (b) Chapters (c) Navajo Central Government (d) Office of Auditor General (OAG)

> There are four elements involved in getting a chapter certified

> Interested Stakeholders
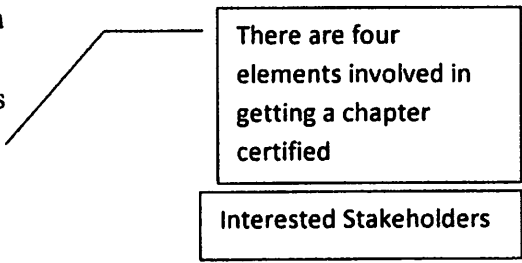
The main focus of this report is recommendations for the LGSC with an emphasis on item 3 of the Plan of Operation. The theme of this report is LGSC: Telling a Better Story.

Chapter Responsibility, Leadership from the Central Government, OAG
The Chapters, the Central Government, and OAG have a responsibility with regard to the implementation of the LGA and performance under that law.

1. Chapters
Chapter officials and staff need to demonstrate skills in the areas of FMS. The LGSC role is to provide technical assistance. The chapters however, cannot wait for the LGSC to shepherd each step of the way towards certification.

2. Leadership from the Central Government

Leadership at the Central level is also needed to create the environment that rewards measurement of LGSC results in accordance with the recommendations provided in this report. Specific individual(s) need to be made accountable at the central level to renew the approach of LGSC toward its mission.

If local governance is a priority, then increased financial incentive, and independence from Window Rock are the rewards that too should be developed from the central government.

3. Office of the Auditor General (OAG)

The OAG performs the assurance service (an audit) to confirm that a chapter is certifiable under LGA. The criteria and point of view of the OAG (Five Management System Policies and Procedures Checklist and Internal Control Questionnaire) need to be coordinated much earlier into the process of chapter development and certification. Chapters, LGSC and OAG need to cooperate early in order for the OAG assurance audit to succeed in recommending certification.

AUDIT PURPOSE AND BACKGROUND

This audit was performed at the request of the OAG. The purpose of this audit was to examine the performance of the LGSC. Since passage of the LGA less than 10% (10 of 110) of the chapters have become certified. LGSC PO is to help prepare chapters for certification. OAG wished to assess the value for money and skill level of LGSC given its PO and the low percentage of certified chapters in the 11 years since the inception of LGA.

Specific scope is discussed in the Scope of Audit Work paragraph.

DELIVERABLE REQUIRED BY CONTRACT

The deliverable required is a written internal audit report using guidance promulgated by the Institute of Internal Auditors. (IIA) That guidance requires that I plan, perform and communicate the audit to you. The contract required comment in the internal audit report on areas (1) to (4) as stated in Scope of Audit Work (scope).

> **The IIA is an internationally recognized authority in the field of internal auditing**

SCOPE OF AUDIT WORK

1) Determine criteria and LGSC staff capabilities in the implementation of policies and procedures in the areas of:

     (a) Accounting
     (b) Procurement
     (c) Recordkeeping
     (d) Personnel Management
     (e) Property Management

2)   Determine the nature of the tools used to disseminate information and the consistency of instruction to the chapter level with regard to (a) thru (e) above.

3)   Determine the LGSC method of allocating resources (time and money) for each chapter that considers workload, staff assignments, travel and consistency of mission.

4)   Determine executive division management monitoring technique over LGSC operations.

5)   Survey chapters to obtain feedback on LGSC service quality.

AUDITOR'S APPROACH TO SCOPE COMPLETION

The approach to complete the audit included but was not limited to the following:
1. analyze LGSC budget data,
2. visit and observe LGSC offices,
3. interview personnel at LGSC offices,
4. interview personnel at Window Rock,
5. mail surveys to chapter community service coordinators (CSC),
6. compile data from the surveys,
7. read the LGA,
8. read the PO,
9. read the documents provided from personnel as the engagement progressed.

ADDITIONAL INFORMATION is included in the following graphs and charts.

a. High Level Summary of the Nation as it pertains to LGA
b. LGA, Stakeholders, Roles and Responsibilities
c. The ten certified chapters and their LGSC
d. LGSC, Number of Chapters, Number of Certified Chapters

```
┌─────────────────┐
│   The Navajo    │
│     Nation      │
└─────────────────┘
         │
         │          One of eleven committees
         │          shown in this summary
         ▼
       88
     member
     governing
     council
         ┊
         ┊                                    Transportation
         ┊                                    and Community
         ┊                                    Development
         ┊                                    Committee
         ▼                                    (TCDC)
    with eleven
      standing
     committees
```

LGA Title 26 Navajo Nation Code (1998)

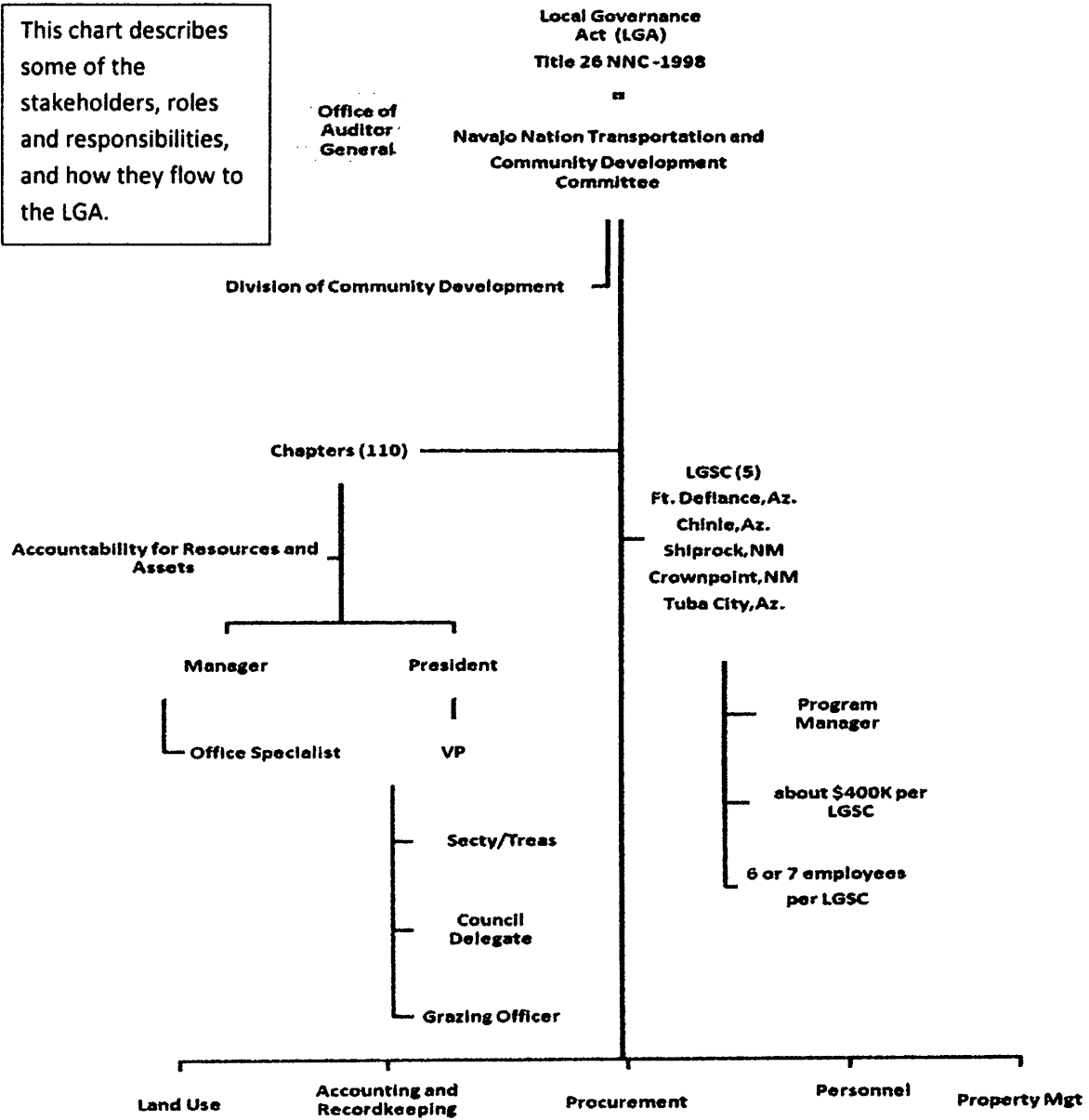Local Governance Support Center (Five)

110 Navajo Nation Chapters

Most chapters are on the cash basis of accounting.
Office of Auditor General (OAG) performs a review to assure certification with LGA.
TCDC confers certification on chapter after OAG review.

This chart describes some of the stakeholders, roles and responsibilities, and how they flow to the LGA.

Local Governance Act (LGA)
Title 26 NNC -1998

Office of Auditor General

Navajo Nation Transportation and Community Development Committee

Division of Community Development

Chapters (110)

LGSC (5)
Ft. Defiance, Az.
Chinle, Az.
Shiprock, NM
Crownpoint, NM
Tuba City, Az.

Accountability for Resources and Assets

Manager

President

Office Specialist

VP

Program Manager

about $400K per LGSC

6 or 7 employees per LGSC

Secty/Treas

Council Delegate

Grazing Officer

Land Use   Accounting and Recordkeeping   Procurement   Personnel   Property Mgt

The ten certified chapters in the 11 years since passage of the LGA are:

NAME OF CHAPTER	NAME OF AGENCY
Nahata Dziil	FORT DEFIANCE
Steamboat	FORT DEFIANCE
Hogback/Tse Daa Kaan	SHIPROCK
Newcomb	SHIPROCK
San Juan	SHIPROCK
Sheepsprings	SHIPROCK
Breadsprings/Baahaali	CROWNPOINT
Littlewater	CROWNPOINT
Shonto	TUBA CITY
To Nanees Dizi	TUBA CITY

The LGSC and their respective number of chapters and certified chapters are:

NAME OF AGENCY	NO. CHAPTERS	NO. CERTIFIED CHAPTERS
FORT DEFIANCE	29	2
CHINLE	16	0
SHIPROCK	19	4
CROWNPOINT	28	2
TUBA CITY	18	2

BACKGROUND DATA ON THE LGSC

Data on the LGSC is contained in the information that follows:
1. Interviews of LGSC personnel
2. Positions, summary of work and educational experience
3. Chart (1) Budget to actual for LGSC individually and as a whole
4. Chart (2) Budget and actual costs per chapter by LGSC
5. Chart (3) LGSC hourly cost per productive hour

INTERVIEWS OF LGSC PERSONNEL

The auditor conducted interviews with the personnel in each LGSC office. Interviews were conducted onsite with the people available on the days the auditor visited. Offices are not identified to maintain objectivity.

A description of the positions and summary of the work and educational experience of 29 LGSC personnel interviewed is in the following information.

SPPS	Senior Programs and Projects Specialist
CIS	Community Involvement Specialist
CAT	Chapter Accounting Technician
AA	Administrative Assistant
ACCT	Accountant
SR. ACCT	Senior Accountant
SR. PLAN	Senior Planner
PS	Professional School

Eight personnel have bachelor degrees. Ten have associates degrees or equivalent. Eleven have no degree. Seventy two percent (72%) have less than a 4 year degree.

On average the work experience for the LGSC personnel is 20 years. This exceeds the average with the LGSC program which is 6 years. These averages are based on the years of work experience both divided by the 29 interviewed personnel.

> 601 years of work experience
>
> 182.50 years of LGSC work experience

POSITIONS, SUMMARY OF WORK AND EDUCATIONAL EXPERIENCE
(Offices not identified to maintain objectivity, No degree means some college)

Position	Years at LGSC	Work Experience	Education Level
SPPS	13.00	30.00	BS
CIS	2.00	20.00	no degree
CAT	3.50	29.00	AA
AA	10.00	36.00	High School
Acct	4.50	20.00	AA
Sr. Acct	12.00	20.00	AA
SPPS	3.00	28.00	no degree
CIS	16.00	20.00	AA degree
CAT	2.00	11.00	AA degree
AA	8.00	20.00	no degree
Sr. Acct	2.00	15.00	AA degree
SPPS	1.00	30.00	BS/MS
CIS	1.00	20.00	BS/MS
CAT	4.00	10.00	AA degree

AA	17.00	20.00	AA degree
Sr. Acct	10.00	20.00	AA degree
SPPS	17.00	20.00	PS
CIS	7.00	37.00	no degree
CAT	1.00	8.00	no degree
AA	1.00	18.00	no degree
Sr. Acct	3.50	24.00	no degree
Sr. Plan	9.00	26.00	BS
SPPS	1.00	19.00	BS Business
CIS	6.00	26.00	High School
CAT	2.00	26.00	no degree
AA	8.00	8.00	no degree
Acct	3.00	3.00	BS Finance
Sr. Acct	10.00	17.00	BS Business
Sr. Plan	5.00	20.00	BS

CONCLUSION REGARDING WORK EXPERIENCE AND EDUCATION

The high number of average years of work experience is inversely related to the number of certified chapters. A conclusion to be drawn from this information is that past work experience may not have prepared LGSC employees for the tasks described in the Plan of Operation paragraph.

Further, educational levels are spread unevenly across the LGSC offices. The agency with the greatest number of certified chapters correlates to all personnel with at least an AA degree. A college degree to the AA level in business administration should be a minimum requirement for LGSC employees.

CHART (1) BUDGET TO ACTUAL FOR LGSC INDIVIDUALLY AND AS A WHOLE

The LGSC as a whole has stayed within its budgeted allocation for the fiscal year ended September 30, 2008. The budget for 2008 was $1.96 million and the actual costs $1.85 million. The average budgeted cost per chapter was $17,820 rounded ($1.96 million/110) and the average actual cost per chapter was $16,830 ($1.85 million/110).

These amounts can be used for comparison against Chart (2) below.

CHART (1) Fiscal Year Ended September 30, 2008 Budget to Actual Cost
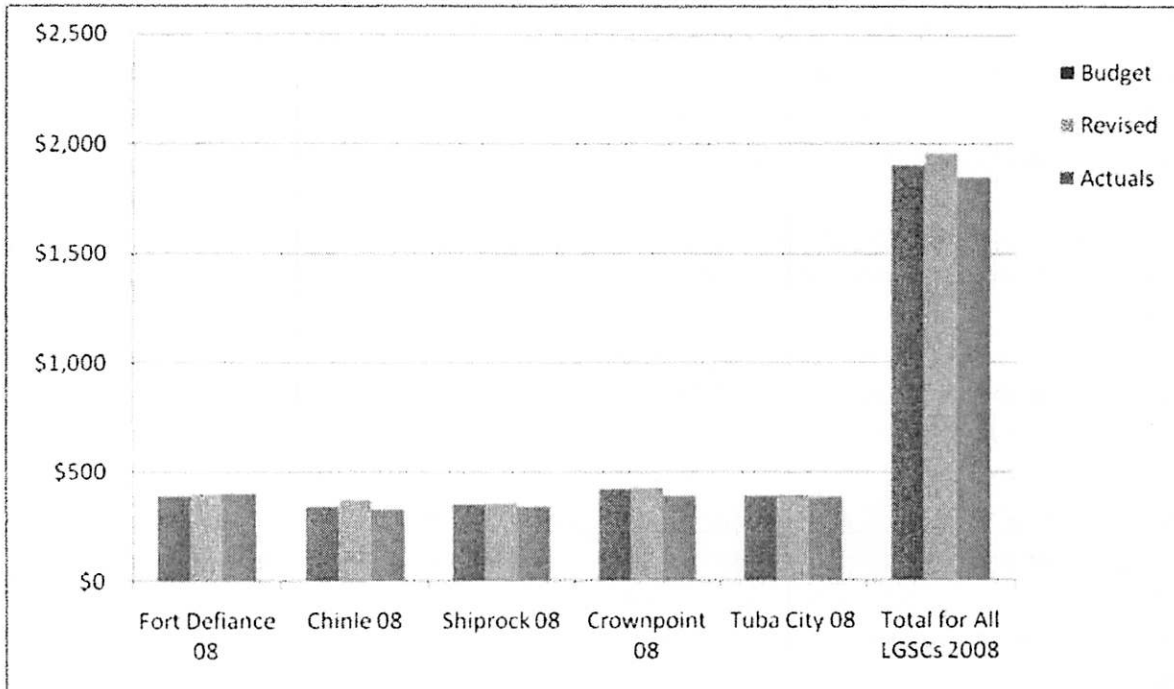
Data is not presented for 2009 because the full year was not completed and available as of the writing of this report. However, at the inception of this audit the auditor examined budget to actual information through April, 2009 and notes that the LGSC offices were operating within their budgeted allocations.

CHART (2) FISCAL 2008 BUDGET AND ACTUAL COSTS PER CHAPTER BY LGSC
The following data is for 2008 and presents a summary of the revised budget against actual dollars expended per LGSC per chapter. For example Chinle budget and actual per chapter was $23,310 and $20,750 (rounded) respectively.

| Agency	Number Chapters	Budget Per Chapter	Compare to Budget of $17,820	Actual Per Chapter Dollars	Compare to Actual of $16,830
Fort Defiance	29	$13,400	below	$13,400	below
Chinle	16	$23,310	above	$20,750	above
Shiprock	19	$18,790	above	$17,890	above
Crownpoint	28	$15,360	below	$13,960	below
Tuba City	18	$22,110	above	$21,440	above

CONCLUSION REGARDING THE BUDGET TO ACTUAL DATA

The average amount of $17,820 was available in fiscal 2008 to allocate directly to each Chapter instead of the LGSC. This money could have been used by each individual Chapter to hire a consultant to work one on one with the Chapter to accomplish the tasks outlined in the Plan of Operation paragraph instead of using the LGSC.

Three of the five offices were above average budget and actual results. The LGSC offices may need to be "right sized" to better distribute workload. The number of LGSC offices may need to be increased.

For comparison the budgeted amount of LGSC cost per chapter was $18,030 in fiscal 2009. ($1.98 million /110)

CHART (3) LGSC HOURLY COST PER PRODUCTIVE HOUR

The hourly cost per productive hour worked for each LGSC varied as shown in the following data for 2008. Productive hours were estimated based on the number of employees and an assumed number of productive hours per employee of 1920. A full year is considered 2080 hours.
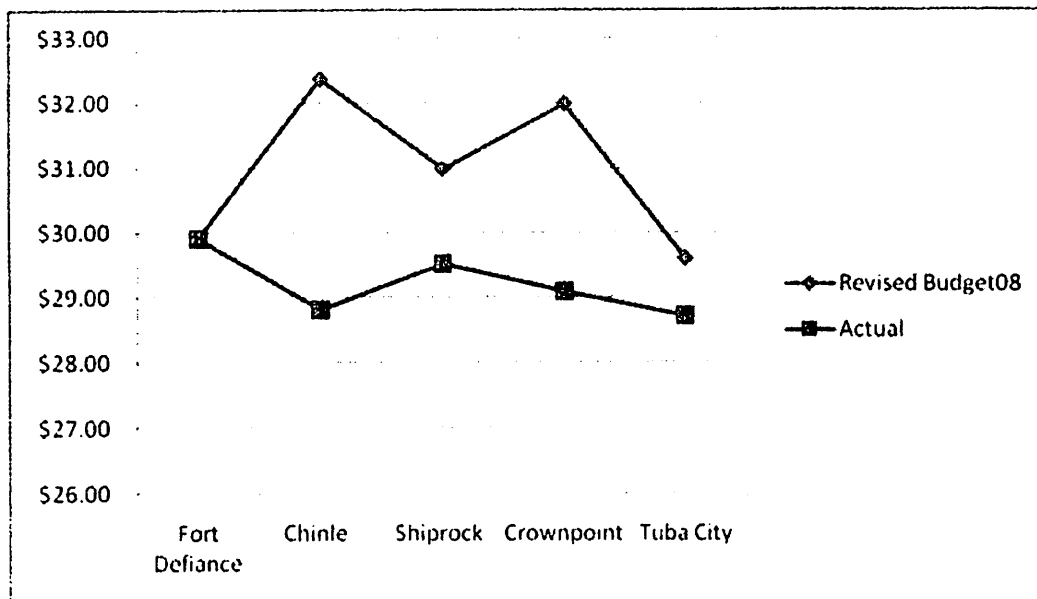
Hours equal 1920 times 6 or 7 employees depending on the agency. The hours are then divided into the budget and actual dollars for each LGSC to get an hourly rate.

Budget/Actual Dollars Per Productive Hour

Agency	No. Employees	Productive Hours	Budget	Actual
Fort Defiance	7	13440	$29.91	$29.91
Chinle	6	11520	$32.38	$28.82
Shiprock	6	11520	$30.99	$29.51
Crownpoint	7	13440	$31.99	$29.09
Tuba City	7	13440	$29.61	$28.72

CONCLUSION REGARDING DOLLARS PER PRODUCTIVE HOUR

At an average rate of $30/hour each chapter could have purchased almost 600 ($17,820/$30) hours of individual consultant time during fiscal year 2008. (50 hours per month). At $75/hour each chapter still could have purchased almost 240 hours for the year or 20 hours per month. The purchased time could have been devoted strictly to the needs of the individual Chapter.

As described in the paragraph Time Spent With LGSC Per Month, under COMPILATION OF SURVEY DATA, Chapters reported zero hours up to forty five hours spent with their LGSC. (62% of responses indicated 1 day or less /mo.)

COMPILATION OF SURVEY DATA

Description of Survey
Survey data was collected. Respondents were asked about (a) rate the LGSC (b) service delivery preference (c) general perception of the LGSC (d) time spent with the LGSC per month, and (e) provide written comments.

Written surveys were sent to all 110 chapters. The primary contact was the Community Service Coordinator (CSC) at each chapter. Forty six chapter CSCs responded. (42% 46/110 chapter response rate) Four survey responses were received from other chapter officials. A total of 50 surveys were received by the auditor.

> 42% of chapters responded to the survey sent out by the auditor

Respondents Rating of the LGSC

Respondents were asked to rate the LGSC using a
simple traditional rating scale of A-F.
(A being highest, F being lowest) Thirty seven of fifty
(74%) returned surveys rated the LGSC as a C
(Average) or lower.
Three declined to give a rating.

The conclusion to be reached from the rating is
that the primary recipients of the LGSC
services do not rate those services highly.

> 74% of respondents rated the LGSC as a C or lower

> LGSC service delivery needs to align with the needs and perceptions of the primary users of those services

Preferences for Service Delivery

Respondents were asked about their preferences regarding training and technical assistance. The following table presents the number of responses received. This will not sum to 50 responses because not all surveys indicated the same needs.

One on one training	16
Classroom	18
Web Based Training	24
Use Technology	21
Five Management System	23
Specific Need to Be Addressed	27

The conclusion to be reached from the table is that service delivery needs to align with the desire of the end user.

However there is a clear desire towards
technology based solutions to the
implementation of the Five
Management System (FMS). Further
27 responses indicated a need for help
with issues unique to a given chapter.

> 1. Technology needs to become a greater part of LGSC service delivery.
> 2. LGSC work scope needs to become more specific

General Perception of the LGSC By Respondents

Respondents were asked about their opinion of the LGSC in general. The following survey responses were received.

Need Monthly Contact	12
LGSC not knowledgeable about FMS	7
Training is excellent	9
Training is not useful	11
LGSC needs to be replaced	9

These results indicate a need for a more personal approach in service delivery by the LGSC, and monthly or more frequent contact between LGSC and all chapters.

Time Spent With LGSC Per Month

Respondents were asked to indicate how much time they spent per month interacting with their LGSC. The responses ranged from zero hours to 45 hours per month. Sixty two percent (31/50) of responses reported one day or less/month.

Summary of Written Comments

A wide range of opinion was expressed regarding the LGSC. Some comments were hostile towards the LGSC and others were very supportive. Comments ranged from appreciation of the LGSC to specific recommendations for improving interactions. The auditor considered these comments in the development of recommendations.

Example (not all) comments include:

1. Agency office is needed, need accountants by region
2. They need more staff. Let certified chapters go and have their own accountant.
3. There for job security, gossip too much.
4. LGSC willing to help but staff and officials reluctant to receive training.
5. LGSC staff not knowledgeable
6. Good at 1 to 1 training
7. Training is repetitive
8. No pat on the back for doing your best, always negative
9. Financial reports not reviewed, SPPS needs to not change knowledgeable personnel
10. Replace the Senior Accountant
11. Visit the office, but no one there
12. Training is very helpful, LGSC is needed by our chapter
13. Unfriendly, unorganized, staff feel like walking on ice
14. Give directives to supervisors to dispense rather than LGSC to CSC, increase LGSC budget and more personnel
15. LGSC is necessary, but need Senior Accountant to help more, SPPS focus on disciplinary, personnel, supervision, hours

The conclusion to be reached from the written comments is that the LGSC function is needed. However the present 5 office LGSC model may need to be changed.

RECOMMENDATIONS FOR THE LGSC

1. Develop a Balanced Scorecard System for LGSC

CONDITION: The LGSC does not have a standardized management system that is uniform across all five offices.

CRITERIA: Business risks every organization faces are that it may be
(a) ineffective in its mission – not achieve objectives
(b) uneconomical - may not be get the best value for the dollars spent
(c) inefficient in carrying out its mission – time not allocated or measured against mission objectives.

One such system to manage these business risks is a balanced scorecard which was developed primarily at the Harvard Business School. The balanced scorecard is considered a leading practice in management. The diagram is for a profit making organization, but is easily adaptable to government.
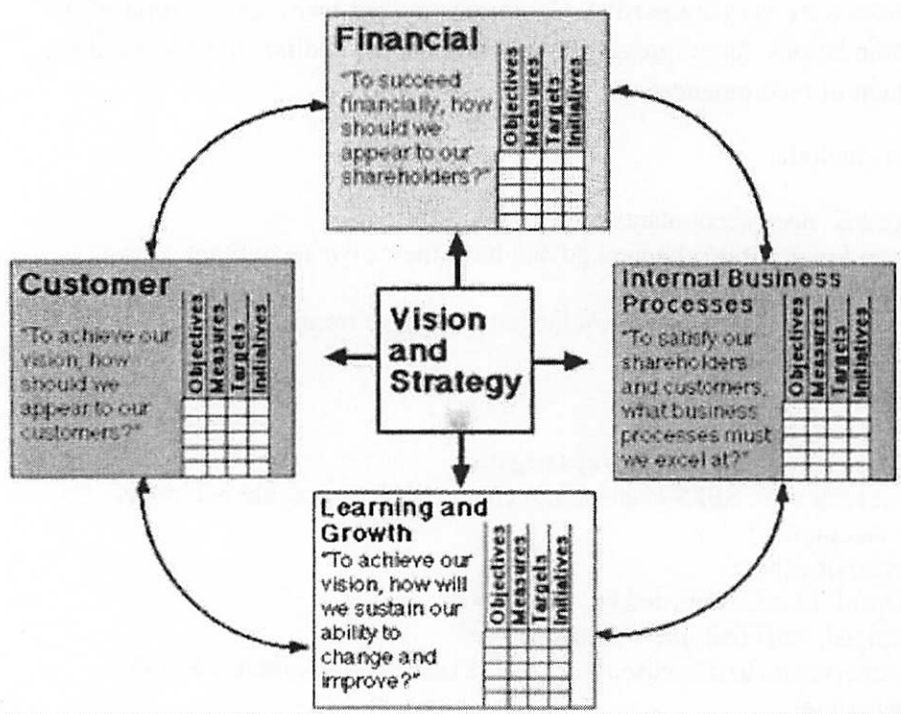
CRITERIA CONTINUED

There are five critical elements to this system.

a. A central Vision and Strategy for the LGSC (Exists for the LGSC in the form of the Plan of Operation)
b. Key Financial Performance Indicators for the LGSC
c. Key Internal Business Processes for the LGSC
d. Key Learning and Growth Processes for the LGSC
e. Key Customer Interactions for the LGSC

CAUSE: The LGSC needs to identify in writing its resources of time, personnel, money, and inventory its skills. It then needs to focus effort on value added performance which is based on the input obtained from the four sources identified in the diagram. The LGSC has not developed in writing specific Objectives, Measures, Targets and Initiatives for the four key processes summarized in (b) to (e) under the Criteria paragraph.

The Form 2 that is part of the annual budgeting process is a starting point for a balanced scorecard. This existing tool can be expanded upon to develop a balanced scorecard with greater depth of measurement.

EFFECT: The LGSC has not effectively told its story and has been subject to criticism from other stakeholders described earlier. A balanced scorecard would force the LGSC to actively think about the range of actions, activities and time spent in day to day work. It would require performance measures.

The scorecard would mitigate the business risks identified earlier and improve
1. effectiveness of the LGSC mission
2. measurement of LGSC results
3. communication across the LGSC, Chapters and Central Government
4. skills and service delivery of the LGSC
5. identification of underperforming elements of LGSC operations

The most important effect of this system may be merely in changing the approach to the way LGSC conducts its activities. The balanced scorecard system is a process of self discovery.

As the philosopher Marcel Proust said, "The real voyage of discovery consists not in seeking new landscapes, but in having new eyes."

RECOMMENDATION: Implement a balanced scorecard system in the coming fiscal year. Develop measures and scores for self identified critical areas of performance. Track these measures and scores over time to determine trends. Respond to trends with remedial actions.

The Additional Information and Background Data and Compilation of Survey Data are starting points for developing measures for the LGSC. This information was presented earlier in the report and is also noted in the Table of Contents of this report.
Also refer to the Appendix: Further Description of the Balanced Scorecard

2. Develop subject matter experts (SME) in each of the five management system (FMS) areas

CONDITION: The LGSC does not have a system of assuring technical expertise and continuous improvement of LGSC employees in the FMS.

CRITERIA: The LGA requires the FMS. The Plan of Operation (PO) requires technical assistance be provided to the chapters.

CAUSE: The work experience and educational background of the LGSC employees, when taken as a whole, have not prepared them for the tasks required by the Plan of Operation. The high number of average years of work experience is inversely related to the number of certified chapters.

EFFECT: 74% of respondents to the survey conducted as part of this audit rated LGSC as a C or lower on a traditional scale of A-F. Many written comments received in the survey also expressed dissatisfaction with the LGSC.

RECOMMENDATION: Each LGSC office employee should develop an expertise in one or more areas of the FMS. Leading practices from external sources and internal Navajo Nation sources need to be identified and communicated regarding FMS. LGSC employees must become experts with recognized credentials to help chapters become LGA certified.

> System of Subject Matter
> Experts (SMEs) in the FMS

The SME can be developed by requiring the following:

a. College degrees for every LGSC employee - with a business emphasis
b. Required hours of continuing education for each LGSC employee (this can be provided by internal and external sources)
c. Accreditation of LGSC employees in one or more of the FMS by a recognized external authority in accounting, procurement, recordkeeping, personnel and property management
d. A system of LGSC peer review (During interviews LGSC personnel expressed the desire to have more regular contact with their counterparts at other LGSC offices. Conduct regular meetings or conferences of LGSC. Develop best or leading practices. Share across LGSC offices. Use these opportunities to build upon websites, forms, techniques and practices already in existence at each LGSC. Network with other Native American tribes with similar goals such as LGA to tap best or leading practices that exist at these Nations. This can be part of the learning and growth or internal business quadrant of the balanced scorecard.)
e. Integrate SME into the balanced scorecard as either a key internal business process, a key learning and growth process, or a key customer process.

3. Radically change the LGSC Structure

CONDITION: The offices are organized in a hierarchical model. Window Rock has a supervisory role to the LGSC. Each office has an SPPS with staff reporting to that level. Further, the LGSC interacts with the chapters in an authoritative role. The current workload of the LGSCs is uneven.

NAME OF LGSC	NO. CHAPTERS
FORT DEFIANCE	29
CHINLE	16
SHIPROCK	19
CROWNPOINT	28
TUBA CITY	18

Perpetuating this arrangement may continue to lengthen certification time.

CRITERIA: A universal business risk any organization faces is that the processes in place may prove to be unreliable in accomplishing a mission or not meet the expectations of stakeholders.

CAUSE: The intent of LGA (independence) and the LGSC implementing tool (hierarchal dependence) are not aligned. The intent of LGA is to create independent municipal type government at the chapter level and to lessen the dependence on central government.

EFFECT: Measured solely by the number of certified chapters the present LGSC system has been ineffective. The LGSC staff has been tasked with roles and responsibilities (Plan of Operation) that exceed their ability to provide to each chapter. These roles and responsibilities also conflict with tasks assigned to chapter officials by the LGA.

RECOMMENDATION: Consider a fresh approach. *What if the system had to be developed from scratch?* Identify a specific individual in the central government accountable for the process.

The Nation is faced with the following choices: (1) modify the current system (2) scrap the current system (3) maintain the current system

All of the stakeholders should participate in addressing the following considerations when making a choice.

a. Decide and right size the number of chapters to LGSC offices
b. Consider an increase in the number of LGSC offices with smaller numbers of chapters per office. Spread the workload evenly.
c. Consider dismantling LGSC offices. Convert LGSC employees to dedicated internal LGA/FMS consultants with 3-5 chapters per employee. There are currently 100 uncertified chapters. Twenty nine LGSC employees were interviewed. The ratio is about 3 chapters per LGSC employee. The job of each LGSC employee would be a field consultant responsible for direct chapter contact. The job would require more on the road

contact, but this would be easier as each employee would have a small dedicated scope of chapters. Communication technology and the use of automation described in point (g) might lessen road travel.

d. Refocus the LGSC budget and structure to provide the personalized attention as preferred from responses to the survey conducted as part of this audit. In fiscal 2008 and 2009 there was $17,820 and $18,030 available respectively per chapter to spend on individual dedicated chapter consultants. Eliminate physical LGSC offices and overhead. Substitute with laptops/virtual offices.

e. Cluster chapters into smaller geographic regions to facilitate a more personal one on one approach to certification.

f. Create chapter networks to facilitate learning between the chapters.

g. Increase the use of automation – for example, online meeting software, computer telephone and video software such as Skype (which is widely available to the public) standardized accounting, information processing software, filing and recordkeeping, use of CD/DVD to train on specific topics like taxes or bank reconciliation, and internet/webinar training.

h. Borrow an approach from the financial institution industry. Implement a 1-5 rating system for each chapter modeled on federal bank examination. A 1 is ready for certification. A 5 is sanctioned or in need of close remedial attention. Use the criterion developed by the OAG for this approach. The Five Management System Policies and Procedures Checklist (FMSP&P) and Internal Control Questionnaire (ICQ) can serve as at least two working tools for the rating and the consultant job earlier described. Each consultant can rate the readiness of a chapter for certification with a 1 being ready for OAG certification review. Obviously a 3 or lower rating would require more frequent contact to ready the chapter.

> A borrowed model to assess chapters

> FMSP&P & ICQ

i. Implement a continuous feedback and improvement system. Solicit regular feedback from the primary customer, the Chapter.
Continuous improvement needs to become a way of doing business at both the Chapter and LGSC level. The feedback needs to include how well the LGSC is doing in the eyes of the customer (Chapter). Part IV (A) (2) (o) of the Plan of Operation requires training twice a year. Many comments in the surveys expressed dissatisfaction with the training. Approaches that no longer work need to be reformatted to better address the chapter needs. The LGSC needs to adopt the "learn one, do one, teach one" philosophy toward FMS. This can be part of the customer quadrant of the balanced scorecard.

> Continuous improvement and feedback

j. Understand the time resource available for each LGSC. Increase the precision of LGSC employee time keeping. Implement definitions of and measure total, productive and unproductive time for each LGSC. Allocate and schedule a minimum number of hours to each chapter per month. Even out the budgeted and actual costs per chapter. (Charts 1, 2, 3 presented earlier) This can be part of the learning and growth or internal business processes of the balanced scorecard quadrant.

> Time and financial budgeting

k. Consider bottoms up budgeting for the LGSC. Consider all the tasks expected of LGSC and then extend out the budget to establish a true cost. Answer the question: What amount of money is needed to do all the things expected of LGSC?

l. Conduct a formal orientation program for LGSC employees, chapter officials and staff. Require signed certification of completion and understanding.

m. Consider a time limit on the existence of LGSC linked to a declining number of uncertified chapters (2-5 year life span).

n. Consider LGSC takeover the role of reviewing and assuring certification and remove OAG out of the process. This would be a risky choice as LGSC could be reviewing its own work, hence independence and objectivity would be limited.

4. Eliminate Handwritten Timekeeping

Discontinue handwritten time sheets from the chapter employees to the Local Governance Support Center.

CONDITION: Administrative staff at LGSC report that they spend as much as one day every two weeks on time sheet administration. This includes collecting the time sheets for up to 220 people (2 staff at 110 chapters), manually entering the information on a summary form and sending that form to Window Rock. Sending the form to Window Rock means to drive it there. This is an inefficient use of time. Someone in Window Rock then enters the data from the 5 LGSC into the computer system at Window Rock. This manually intensive process can be streamlined with an online based system and free up time at the chapter, LGSC and headquarters level. The saved time can be spent on higher value added activities than entering and reconciling manual time sheets.

CRITERIA: A universal business risk every organization faces is operating uneconomically and inefficiently.

CAUSE: Technological advances have not been implemented.

EFFECT: The auditor estimates that throughout the chapters and LGSC about 17000 hours/year may be used processing time manually. At an auditor estimated average productive hourly rate of $29 this results in almost half a million dollars ($500K) spent on manual time processing per year. This cost can be avoided with a new technology based system. Additional budget would be made available for more important value added activity. The benefits if a technology based process is extended to the nation as a whole most certainly would result in time saved, which means money saved at the central level.

RECOMMENDATION: Implement an online based time capturing and approval system. Current available technology can eliminate this time consuming task and free up time of the administrative staff at each LGSC.

5. Make Accounting the Core Skill at the Chapter Level

CONDITION: The interviews and surveys conducted during the audit raised accounting as a key process from which the other four elements of FMS would radiate from. Written comments received from chapters indicated a need for greater help with bookkeeping, tax compliance and use of accounting software. The comments received were mixed with regard to LGSC help with accounting. Many comments complained of a lack of knowledge on the part of the LGSC. Others were appreciative of the help received. These results are uneven.

CRITERIA: Accounting is named as a key component of the FMS within the LGA. Plan of Operation point (4) requires the LGSC to provide accounting services.

CAUSE: The chapter structure only allows for two paid staff (see LGA System presented earlier). The LGSC explained during the interviews that they spend a lot of effort remediating and monitoring accounting issues. LGSC staff is not accredited or certified in accounting or bookkeeping. There are no Certified Bookkeepers.

EFFECT: FMS proficiency would be easier with good accounting and recordkeeping practices at the chapter level. Certified chapter numbers will increase. Sanctioning of chapters would be less of a concern.

RECOMMENDATION: Chapters need dedicated accountants. An accounting position at each chapter would help alleviate the issues that arise. Choose standard accounting software such as Quick-books. (Many chapters have already chosen software called MIP) Train LGSC and chapter employees on the standard software. (Software is often experientially learned.) Use shared learning through peer review, trainers or the Navajo Nation Dine College. Encourage employees to obtain the Certified Bookkeeper designation.

Tap existing business enterprises located within various chapters to become part of an entrepreneurial training network. Determine if accountants and staff at these businesses that can cross train chapter staff and officials and serve as a knowledge resource.

If budget is a concern an alternative to an accountant at each chapter would be to provide an accountant that would be given a number of chapters to be responsible for. That person could then travel to the chapters and be dedicated to accounting troubleshooting. This position would be in addition to existing accountants at LGSC.

6. Reformulate the LGSC Plan of Operation (PO)

CONDITION: Dissatisfaction was expressed during this audit about (1) the number of certified chapters (2) the number of sanctioned chapters (3) the state of corrective actions plans for sanctioned chapters.

There are those within the nation that believe the LGSC is strictly a consulting organization providing administrative support and technical assistance only. There are those within the Nation that believe responsibility for the record of 100 uncertified chapters falls squarely on the LGSC.

The Local Governance Act assigns chapter officials and employees duties. Certification begins with the chapters.

The Plan of Operation assigns the LGSC duties. Part of the LGSC mission is to prepare chapters to get certified.

CRITERIA: The LGSC is established within the Division of Community Development under resolution GSCAU-75-99. This is the commonly referred to Plan of Operation. Parts II, III and IV provide the principal instructions to the LGSC to carry out the mission of providing administrative support and technical assistance.

Part II of that document lays out the purpose and activities of the LGSC. Part III of that document establishes the organization and locations of offices. Part IV (A) and (B) describes the duties and responsibilities of LGSC personnel and the Community Services Coordinator (CSC) at the Chapter level.

The plan of operation does state the following.
Part II (B) (2) states LGSC, "assist the chapter governments...with the implementation of the Five Management System policies and procedures... consistent with...Local Governance Act" Part IV (A) (g), "facilitate governmental development by assisting chapters with implementation of the Five Management System ..."

The plan of operation also provides for the LGSC to take an active role in the management of chapters.

Part II (A) (1) "monitoring all chapter funds...(4), "providing financial and accounting services" (B)(1), "assist the chapter governments to ensure that chapter funds,...are expended in accordance with applicable Navajo Nation...laws." Part IV (A) (2) (j), "provide technical, management and accounting services." Part IV (B) (2), "the community services coordinator shall serve under the general direction of the Senior Programs and Projects Specialist (SPPS) except as otherwise provided in the Plan of Operation..." Part IV (B) (4) also describes the role of the SPPS in disciplinary action against the CSC.

CAUSE: Variance with LGA Law

The LGA law itself prescribes many of the same duties as the Plan of Operation. Their fulfillment is clearly the responsibility of the chapter officials. Please refer to the diagram LGA, Stakeholders, Roles and Responsibilities System and the accountability for resources and assets.

EFFECT: Continued misunderstanding of roles and responsibilities, and weak certification results.

RECOMMENDATION: (a) Align the PO with the LGA through one of two choices (1) modify the current system (2) scrap the current system and substitute it with something else

(b) Identify a specific individual in the central government accountable for the process of PO, LGA and LGSC alignment.

(c) Consider required minimum skills for chapter officials. Consider the creation of contractual commitments with chapter officials and staff to achieve certification.

GUIDANCE TO DIVISION MANAGEMENT FOR RATING THE LGSC

The auditor has chosen to provide guidance for rating of the LGSC. The rating is a professional judgment that can be used by division management. The rating should be used to frame discussion about the path and desired outcome for the LGSC.

The rating addresses two concepts (a) design of the LGSC (b) effectiveness of the LGSC. The rating is four choices based on the SMART concept defined below.

Adequate   Not Adequate at Some Level
Adequate at Some Level   Not Adequate

Adequate is defined as possessing specific, measurable, achievable, realistic and timely (SMART) milestones and mission objectives. Data to perform an evaluation is sufficient and available.

Adequate at Some Level is defined as partly possessing specific, measurable, achievable, realistic and timely milestones and mission objectives. Data to perform an evaluation is sufficient and available.

Not Adequate at Some Level is defined as a lack of clarity or difficulty in implementing one or more of the five SMART elements in reaching milestones and mission objectives. Data to perform an evaluation may be available, but is insufficient, inconclusive or not compiled in an easily useful way.

<u>Not Adequate</u> is defined as not possessing specific, measurable, achievable, realistic and timely milestones and mission objectives. Data to perform an evaluation is insufficient, nonexistent or unavailable.

<u>Guidance for rating the design of the LGSC</u>
There has been considerable effort since the passage of the LGA in developing structure and written guidance for the LGSC. The LGA law itself, the Plan of Operation (PO), Budget Cycle Condition of Appropriation, and LGSC internal websites and documents all describe the design of the LGSC. The LGSC mission is described in the Plan of Operation paragraph. Over the years the LGSC has been burdened with other tasks including increased monitoring of chapter activities. This may be the right time to take a fresh look and decide whether LGSC is an internal consulting organization or a surrogate for chapter management. The LGSC also needs to implement a more active feedback system from its customers and stakeholders and make course adjustments as part of its management process.

<u>Guidance for rating the effectiveness of the LGSC</u>
The most prominent indicator of success is the number of certified chapters. (10) Another indicator would be time to clear sanctioned chapters. (Title 12NNC section 9) Since 2002 28 of 110 chapters have been considered for sanction. Sanctioning withholds chapter budget. It has taken several years to remove sanctions. Clearly in 11 years since LGA became law the result has been inadequate for the nation as a whole. The overall rating given by survey respondents to the LGSC as a whole is a C. The perception of its effectiveness is below average. This is baseline information to measure improvement going forward.

The LGSC has also been burdened with the role of having to take over some chapter tasks in a very active way. Takeover of some chapter tasks may be interpreted as part of the plan of operation, but it is not stated in the LGA. It has also been perceived as the agency that should get chapters certified. The mission of LGSC and measures of what it is to accomplish have been mixed over the years. Form 2 does not go far enough as presently used. Recommendation number (1) Balanced Scorecard is provided to put LGSC back on track. What gets measured is what gets done and it needs to be consistent across all five LGSC.

<u>CONCLUSION</u>
The LGSCs are working to accomplish their mission under several disadvantages; uneven workload, a client base spread over large and remote territory - some with poor roads and physical/technological infrastructure, and a need for more leadership and vision from Window Rock. Physical and technological barriers that impede certification need to be addressed.

The inherent mission of the LGSC is also self eliminating. Once all chapters are certified the LGSC may no longer be needed. The impact of this effect on the LGSC personnel has to be dealt with as part of the certification strategy.

The effect of varying talent levels and commitment from chapter officials and personnel with regard to certification cannot be overstated either. In a very real sense certification begins with the chapter.

Each LGSC has a website, forms and processes. They are not consistent from LGSC office to LGSC office. The SPPS at each office is involved in the activities of their personnel. They receive regular reports from their people and follow up to ensure progress is being made; some take the reports at face value without feedback, follow up or investigation. In general the LGSCs suffer from a lack of standards in Chapter reporting, monitoring activity and bookkeeping. Involved management at the division and national level also would help. This includes establishing standards to be used by all LGSCs, a monitoring system, and holding people accountable.

If the choice is to maintain the present system consideration can be given to the following. Allocate chapter staff salaries through the LGSC budgets. This might give the LGSC an added tool to achieve certification. Create a morale booster such as "Caught doing something good" certificates with a financial or other reward such as time off. This can be something granted by the LGSC to the Chapter.

A publicity campaign, the use of billboards, or an "Academy Award" type presentation can be started to promote certification. LGSC staff job descriptions need to be revisited.

Moving forward requires a fresh approach. Managers and personnel (from wherever in the Nation) who lack the skill sets to deal with the problems of certification become a burden on the Chapters, LGSC, OAG and the Nation.

For the LGSC specifically, difficult choices lie ahead because the LGSC personnel may be unable to rise to the occasion and develop the skills and approach needed to improve the number of certified chapters. Some members of the LGSC staff will need to seek training resources to develop new skills. New managers and personnel at the LGSC offices may need to be considered.

Declining morale, misperceptions, dismantling of the LGSC offices, and out-sourcing of the function may be an outcome of ignoring plans for the future. Choices must be made as to LGSC structure and mission. A task force of interested stakeholders from within the Nation must be consulted.

Good managers and personnel have a combination of good technical and people skills. When times are good and you have personnel with less than stellar people skills the effect may be blunted. When times aren't good or in times of transition and change it becomes an issue to have people who cannot manage their mission, their people and their customer relationships. Weak managers or personnel increase problems in accomplishing mission and service delivery.

The effect of a fresh approach to the LGA and LGSC has the following upside:

- **Stimulate** job growth
- **Strengthen** local economies
- **Generate** significant returns for interested stakeholders
- **Increase** the entrepreneurial capacity of chapters
- **Help** chapters and nation constituents become operational and independent

GLOSSARY

AA	Administrative Assistant
ACCT	Accountant
CIS	Community Involvement Specialist
CAT	Chapter Accounting Technician
CSC	Community Service Coordinator
DCD	Division of Community Development
FMS	Five Management System
IIA	Institute of Internal Auditors
LGA	Local Governance Act
LGSC	Local Governance Support Center
NNC	Navajo Nation Code
OAG	Office of Auditor General
PO	Plan of Operation
PS	Professional School
SME	Subject Matter Expert
SPPS	Senior Programs and Projects Specialist
SR. ACCT	Senior Accountant
SR. PLAN	Senior Planner
TCDC	Transportation and Community Development Committee

APPENDIX

BUSINESS RISK CRITERIA

Business risk criteria used in the development of recommendations draws heavily from concepts developed by the Committee of Sponsoring Organizations (COSO). This entity established in 1992 is comprised of 5 accounting/management organizations. Their work resulted in the COSO report which has provided guidance in the management of government, commercial and not for profit organizations throughout the economy. Their work has been accepted as best or leading practice criteria.

FURTHER DESCRIPTION OF THE BALANCED SCORECARD

It tells the story of an entity's strategy, articulating a sequence of cause and effect relationships-the links among various perspectives that describe how strategy will be implemented. Each measure in the scorecard is part of a cause and effect chain from strategy formulation to financial and operational outcomes.

It helps to communicate the strategy to all members of the entity by translating the strategy into a coherent and linked set of understandable and measurable operational targets. Guided by the scorecard, managers and employees take actions and make decisions to achieve the entity's strategy. To focus these actions, some entities develop scorecards at division, department, office or functional levels.

In for profit entities, the balanced scorecard places strong emphasis on financial objectives and measures. Managers sometimes focus on innovation, quality, and customer satisfaction as ends in themselves, even if they do not lead to tangible payoffs. A balanced scorecard emphasizes nonfinancial measures as part of a program to achieve future financial performance. When financial and nonfinancial performance measures are properly linked, most, if not all, of the nonfinancial measures serve as indicators of future financial performance.

In government, the balanced scorecard can combine financial and nonfinancial measures to focus on program goal achievement.

The balanced scorecard limits the number of measures, identifying only the most critical ones. The purpose is to focus managers' attention on measures that most affect the implementation of strategy.

CLIENT RESPONSE

THE NAVAJO NATION
DIVISION OF COMMUNITY DEVELOPMENT
POST OFFICE BOX 1904   WINDOW ROCK, AZ 86515
TEL: (928) 871-6810/6442   FAX: (928) 871-7090   WEBSITE: WWW.NNDCD.ORG

DCDA-M10014

MEMORANDUM

TO : Elizabeth Begay, CIA, CFE
Office of the Auditor General
THE LEGISLATIVE BRANCH

FROM : Arbin Mitchell, Division Director
Division of Community Development

DATE : November 16, 2009

SUBJECT: Response to Performance Audit of LGSC

The Division of Community Development would like to thank the Office of the Auditor General for the performance audit conducted by an independent auditor. We believe that some of the recommendations offered by the auditor are auditor positive ideas, and some are not too well thought out at best. Therefore, we offer the following response:

1. **The Local Governance Support Center does not have a standardized management system that is uniform across all five offices.**

- **The audit recommends Local Governance Support Center develop and implement a balanced scorecard:**

   The Form 2 developed by OMB was mentioned. This is standardized across the five agency offices. We have also developed a strategic Plan of Action for FY 2010 which includes our vision, mission statement and specific goals and objectives. One of the success stories Mr. Stenzel fails to mention is our involvement in the planning, development and the implementation of the Five Management System Policies and Procedures Manual for all 110 Navajo Nation Chapters.
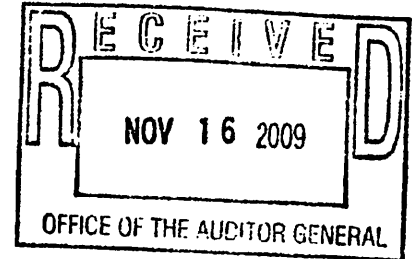
In our strategic planning work session, we pretty much covered some of the system to manage the business risks Mr. Stenzel mentioned including the SWOT concept to conclude our goals and objectives. These were made standard across the five agency offices and were completed after the audit was completed. Local Governance Support Center offices are also now assessing and evaluating the local chapters Form 2 and Budget on a quarterly basis. This is an assurance that chapters are carrying out those performance measures they set for themselves. This was formerly an OMB function. In addition, the Senior Accountants have developed a Uniformed Accounting Manual and is being used as a guide by the local chapters.

2.   The local Governance Support Centers does not have a system of assuring technical expertise and continuous improvement of Local Government Support Center employees in the Five Management System.

- **The audit recommends Local Governance Support Center develops subject matter expertise (SME) in each of the Five Management System (FMS) areas:**

    While most of the LGSC employees do not have college degrees or accreditation with emphasis on business administration, all of our staff has been trained through internal sources of the Navajo Nation. Some of these internal resources include staff from the Department of Personnel Management, Navajo Nation Purchasing Department, Navajo Nation Property Management, Office of the Controller, Accounting Section and Records Management. The Local Governance Support Center staffs were all trained and knowledgeable in these five components of the Five Management System before we begin the Five Management System policies and procedures development. The Navajo Nation already has their own management system policies and procedures, and chapters are required to develop their own policies applicable to these Navajo Nation laws. The main emphasis when Local Governance Support Center staffs monitor chapter funds is that they are in compliance and implementing their policies. The recommendation that each employee of LGSC become (SME) is not practical for us. We would rather see the staff be able to be involved in all aspects of Five Management System. The accounting is handled by individuals with certification. We do not have the luxury of developing our operating budget from the bottom up and say this is what we need. Money is scarce and we have to compete and fight for every dollar we can get.

3.   The Local Governance Support Center offices are organized in a hierarchical model.   Window Rock has a supervisory role to the LGSC. Each office has Senior Program & Projects Specialist with staff reporting to that level. Further, the Local Governance Support Center interacts with the chapters in a authoritative role.

- **The audit recommends radically changing the Local Governance Support Center structure:**

  If the conclusion reached from the written comments from other survey is correct, the Local Governance Support Center function is needed. However, everything else, including the general perception of LGSC by respondents, time spent with Local Governance Support Center per month, preference for service delivery, and the respondents rating of the LGSC, it is time for a change in the LGSC structure. We are totally in support of this, but not all of the considerations mentioned in the audit on Page 28. It has been eleven (11) years since the enactment of the Local Governance Act, and ten (10) years since the establishment of the Local Governance Support Centers. Initially, we were primarily responsible for providing administrative support services and technical assistance to local chapter governments, without any authoritative roles. Currently, we are charged with monitoring all chapter allocated funds from the Navajo Nation central government through financial reporting by chapters to our office, and to report and recommend withholding of chapter funds if chapters are not in compliance with conditions of appropriations. These changes in our program functions sometimes conflicts with the duties and responsibilities of these chapter officials according to LGA. We need to look back to see where we've been and where we need to go from here.

4.   Administrative staff at Local Governance Support Center report that they spend as much as one day every two weeks on timesheets administration. Technological advances have not been implemented.

- **The audit recommends discontinuation of handwritten time sheets from the chapter employees to the LGSC:**

  We agree with the recommendation and the Division of Community Development is currently initiating such a move to automate the time sheet process from the chapter's to Window Rock. This move is also necessitated pursuant to Conditions of Appropriations No. 18 under the Navajo Nation Council Resolution No. CS-29-09, "Accepting the Navajo Nation Fiscal Year 2010 Comprehensive Budget."

5.   The Interviews and surveys conducted during the audit raised accounting as a key process from which the other four elements of Five Management System would radiate from. Written comments received from chapters indicated a need for greater help with book keeping, tax compliance and use of accounting software.

- **The audit recommends making accounting the Core Skill at the chapter level, and creates an accounting position at each chapter. It also recommends choosing a standard accounting software:**

    From the inception of the Local Governance Act, LGSC knew that in order for the local chapter governments to administer its funds and be accountable for those resources, it must have someone with expertise in accounting. The Division has approached the legislative oversight committee on this concern to add an accounting technician position at each of the 110 Navajo Nation chapters. We get turned down every time. The last attempt was in FY 2009 when our request went as far as the Transportation and Community Development Committee and it got turned down for lack of available funds. Not to be deterred we have put in place a governmental fund accounting software which currently we have thirty-seven (37) chapters buy into. We are continuously providing training to ensure the chapter staff can successfully operate the accounting software. Through our encouragement some chapters are starting to hire its own accountant. Slowly, we are seeing progress, and we will continue to stress accounting proficiency at all chapters by the end of FY 2010. We agree with the audit finding and recommendation.

6.   Dissatisfaction was expressed during this audit about (1) the number of certified chapters (2) the number of sanctioned chapters, and (3) the state of corrective action plans for sanctioned chapters.

- **The audit recommends reformulating the LGSC Plan of Operation (PO) by (a) aligning the PO with the LGA through one of two choices (1) modify the current system (2) scrap the current system and substitute it with something else:**

We agree with the audit that 26 N.N.C., the Local Governance Act (LGA) assigns chapter officials and employees certain authorities, duties and responsibilities; and that certification begins with the chapters. All of the monitoring, reporting and safeguard of chapter assets and resources are charged with the chapter officials, staff and membership and built into the LGA. LGSC's mission and responsibilities should be only to assist and prepare chapters with LGA governance certification. In order to return to the original intent of LGSC, which is to provide administrative support services and technical assistance, we need the support of the stakeholders. This may require a hard sell to accomplish, but, with the current LGSC system, it isn't working. This may or may not be enough. Over the years, LGSC has undertaken additional tasks including the 2010 Census Count, the rural addressing initiative, chapter project planning and development, assessment and evaluation of chapters' performance measures. These assignments and responsibilities are administratively assigned by the central office without any changes to the LGSC Plan of Operation. The monitoring of all chapter funds by LGSC has been a major cause of not spending as much time as we like to with chapters. If there is support by all stakeholders to modify the current LGSC system, we are all for it. Chapter governance certification is a responsibility of the Chapter!!

xc: file