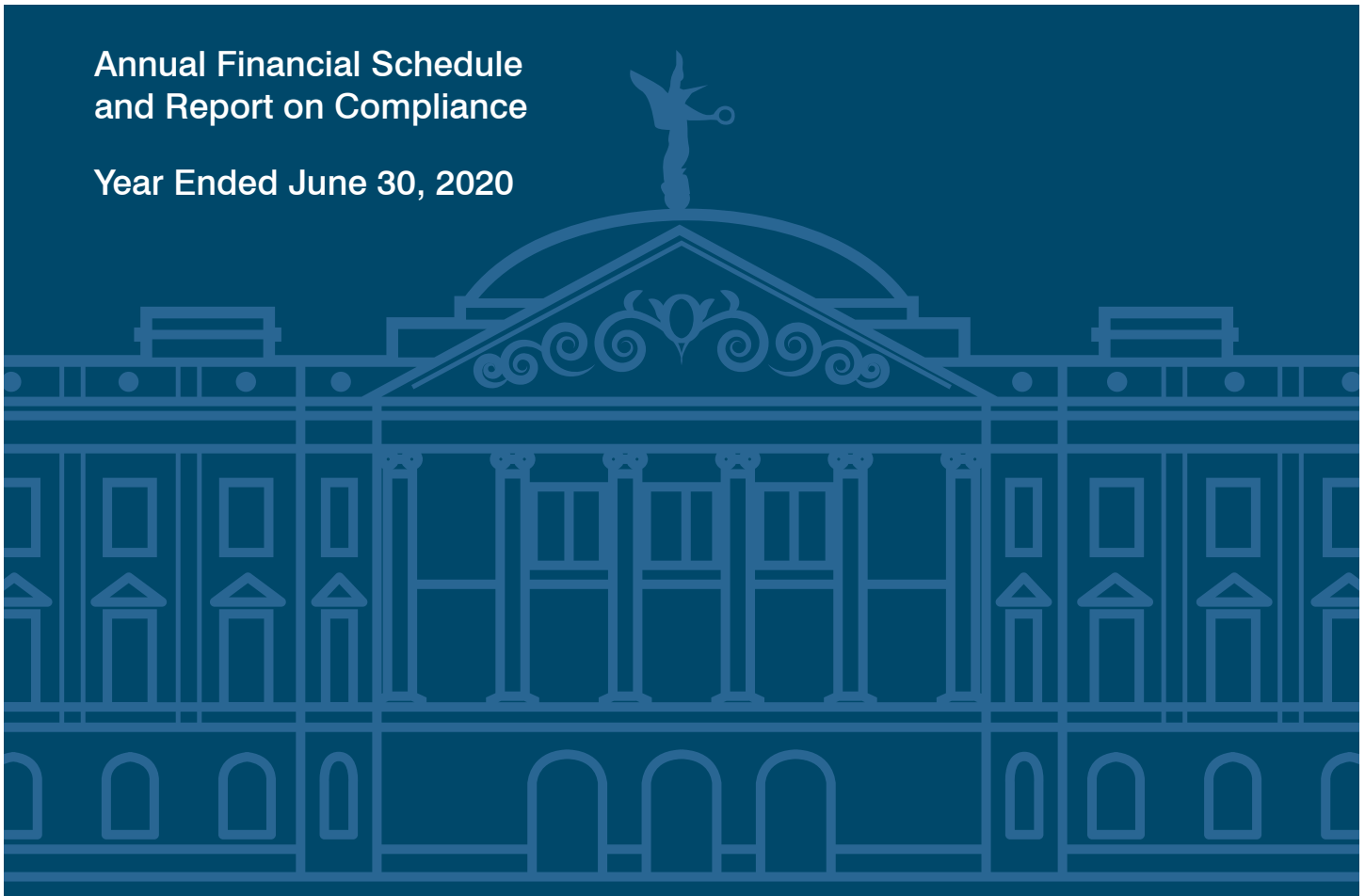


Navajo Nation, Diné College—State of Arizona Funding Compact

Annual Financial Schedule
and Report on Compliance

Year Ended June 30, 2020



A Report to the Arizona Legislature

Lindsey A. Perry
Auditor General





The Arizona Auditor General’s mission is to provide independent and impartial information and specific recommendations to improve the operations of State and local government entities. To this end, the Office provides financial audits and accounting services to the State and political subdivisions, investigates possible misuse of public monies, and conducts performance audits and special reviews of school districts, State agencies, and the programs they administer.

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LINDSEY A. PERRY
AUDITOR GENERAL

ARIZONA
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

Independent accountants' report

Members of the Arizona State Legislature

The Honorable Katie Hobbs, Governor, State of Arizona

The Honorable Buu Nygren, President, Navajo Nation

Dr. Charles M. Roessel, President, Diné College

We have examined the accompanying schedule of revenues, expenditures, and changes in fund balance of the Navajo Nation, Diné College—State of Arizona Funding Compact, for the year ended June 30, 2020, and the related notes to the schedule. Diné College's management is responsible for presenting this schedule based on the criteria described in Note 2. Our responsibility is to express an opinion on this schedule based on our examination.

We conducted our examination in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the schedule is based on the criteria described in Note 2 in all material respects. An examination involves performing procedures to obtain evidence about the schedule. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material misstatement of the schedule, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

We are required to be independent and to meet our other ethical responsibilities in accordance with relevant ethical requirements relating to the engagement.

As discussed in Note 2, the County did not receive any Transaction Privilege Tax revenues because it failed to submit its work plan in accordance with the Funding Compact. Our opinion is not modified with respect to this matter.

In our opinion, the schedule referred to above is presented based on the criteria described in Note 2 in all material respects.

Lindsey A. Perry

Lindsey A. Perry, CPA, CFE
Auditor General

June 15, 2023

Navajo Nation, Diné College—State of Arizona Funding Compact
Schedule of revenues, expenditures, and changes in fund balance
Year ended June 30, 2020

Revenues:

Intergovernmental \$ 0

Expenditures:

Maintenance, renewal, and capital expenditures 1,376,882

Revenues in excess of expenditures (1,376,882)

Fund balance, July 1, 2019 4,942,094

Fund balance, June 30, 2020 \$3,565,212

See accompanying notes to schedule.

Navajo Nation, Diné College—State of Arizona Funding Compact

Notes to schedule of revenues, expenditures, and changes in fund balance

Year ended June 30, 2020

Note 1

Arizona Revised Statutes (A.R.S.) §42-5031.01 allows transaction privilege tax revenues collected on the Navajo Nation to be transferred to Diné College. The statute restricts the use of this revenue for the maintenance and renewal of buildings and infrastructure and capital construction costs of new buildings, structures, and site improvements expenditures of Diné College campuses operating in the State of Arizona. It also requires that the State of Arizona and the Navajo Nation enter into a compact requiring Diné College to account for the use of these monies. In March 2014, the Navajo Nation entered into this compact. Diné College must reimburse the State of Arizona, or the State may withhold future payments, for any amounts not used for maintenance, renewal, or capital expenditures at Diné College campuses operated in the State.

Note 2

The schedule of revenues, expenditures, and changes in fund balance is presented based on the revenue and expenditure criteria described in A.R.S. §42-5031.01(A) and (C). Under this statute, the Arizona State Treasurer is required to transfer transaction privilege tax revenues (TPT) collected on the Navajo Nation to Diné College monthly. In each fiscal year, no more than \$1,750,000 or one-tenth of the TPT revenues received from all sources located on the Navajo Nation, whichever is less, may be transferred. In addition, the funding compact requires the College to annually submit a work plan to the Arizona Department of Administration (ADOA) to propose its yearly building maintenance, renewal, and capital expenditures plans and ADOA must conclude on the work plan's financial feasibility for the College to receive up to \$1,750,000 of TPT revenues for the year. Diné College did not submit a work plan to ADOA during the year in accordance with the compact and consequently the State did not transfer any TPT revenues to Diné College during the year ended June 30, 2020. The College subsequently submitted its work plans for fiscal years 2020 and 2021 to ADOA on April 23, 2021. Since the fiscal year 2020 work plan was submitted past the fiscal year end of June 30, 2020, and as State law (A.R.S. §42-5031.01[C]) prohibits the State Treasurer from disbursing more than \$1,750,000 in any fiscal year, the College was at risk of not receiving this funding. However, new legislation (Laws 2021, Ch. 430, §17) was passed to provide for a distribution of \$3,500,000 of TPT revenues in lieu of the distribution required by A.R.S. §42-5031.01 to Diné College for fiscal years 2020 and 2021. As a result, TPT revenues of \$3,500,000 were transferred to Diné College by July 13, 2021, and will be reported as revenues in the fiscal year 2021 Annual Financial Schedule. Maintenance, renewal, and capital asset expenditures totaling \$1,376,882 include goods and services received during the year ended June 30, 2020, regardless of when payment was made. The schedule includes \$41,741 in expenditures for goods and services received by June 30, 2020, but paid for after that date.



LINDSEY A. PERRY
AUDITOR GENERAL

ARIZONA
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

Independent accountants' report on compliance with the Navajo Nation, Diné College—State of Arizona Funding Compact

Members of the Arizona State Legislature

The Honorable Katie Hobbs, Governor, State of Arizona

The Honorable Buu Nygren, President, Navajo Nation

Dr. Charles M. Roessel, President, Diné College

We have examined Diné College's compliance as to whether during the year ended June 30, 2020, transaction privilege taxes collected on the Navajo Nation and distributed in prior years by the Arizona State Treasurer to Diné College pursuant to Arizona Revised Statutes (A.R.S.) §42-5031.01 were used solely for the maintenance, renewal, and capital expenditures of Diné College campuses operating in the State of Arizona as prescribed by A.R.S. §42-5031.01. Diné College's management is responsible for compliance with the specified requirements. Our responsibility is to express an opinion on Diné College's compliance with the specified requirements based on our examination.

We conducted our examination in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether Diné College complied, in all material respects, with the specified requirements referenced above. An examination involves performing procedures to obtain evidence about whether Diné College complied with the specified requirements. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material noncompliance, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

We are required to be independent and to meet our other ethical responsibilities in accordance with relevant ethical requirements relating to the engagement. Our examination does not provide a legal determination on Diné College's compliance with the specified requirements.

The results of our examination procedures disclosed an instance of noncompliance that is described in the accompanying schedule of findings and recommendations as item 2020-01. Our opinion is not modified with respect to this matter.

In our opinion, Diné College complied, in all material respects, with the specified requirements referenced above during the year ended June 30, 2020.

Lindsey A. Perry

Lindsey A. Perry, CPA, CFE
Auditor General

June 15, 2023



SCHEDULE OF FINDINGS AND RECOMMENDATIONS

In planning and performing our examination, we considered the Diné College's (College) internal control to design procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance as to whether transaction privilege taxes collected on the Navajo Nation and distributed to the College in the prior years were used solely for the maintenance, renewal, and capital expenditures of the College's campuses. Our examination was not for the purpose of expressing an opinion on the effectiveness of the College's internal control. Accordingly, we do not express such an opinion.

As a result of our examination, we identified deficiencies in internal controls and noncompliance that the College's management should correct to ensure that they fulfill their responsibility to establish and maintain adequate internal controls over compliance with the requirements specified in the State of Arizona Funding Compact. Our finding and recommendations are described below.

2020-01

Contrary to its funding compact with the State, the College did not timely prepare and submit its required annual work plan to the Arizona Department of Administration, resulting in the College being at risk of not receiving up to \$1,750,000 of transaction privilege tax revenues

Condition—Contrary to its funding compact with the State, the College did not timely prepare and submit its required annual work plan to propose its building maintenance, renewal, and capital expenditures plans to the Arizona Department of Administration (ADOA) until after fiscal year end on April 23, 2021.

Effect—The College was at risk of not receiving up to \$1,750,000 of transaction privilege tax (TPT) revenues, resulting in an increased risk that the College may need to defer or adjust its future plans for building maintenance, renewal, and capital expenditures. Specifically, the College was not eligible to receive TPT revenue disbursements during fiscal year 2020 as it did not submit its work plan until after the fiscal year end. Further, as State law prohibits the State Treasurer from disbursing more than \$1,750,000 in any fiscal year, the College was at risk of permanently losing these revenues (Arizona Revised Statutes §42-5031.01). However, a 2021 State law was passed to provide for a distribution of \$3,500,000 in TPT revenues in lieu of the distribution required by A.R.S. §42-5031.01 to the College for fiscal years 2020 and 2021, or \$1,750,000 in distributions for each fiscal year.

Cause—The College employee who was responsible for preparing and submitting the fiscal year 2020 work plan left the College's employment, and the College lacked written policies and procedures over the funding compact's requirement to prepare and submit the annual work plan to ADOA.

Criteria—The funding compact requires the College to annually submit a work plan to ADOA to propose its yearly building maintenance, renewal, and capital expenditures plans 60 days prior to receipt of TPT revenues. The funding compact also requires ADOA to conclude on the work plan's financial feasibility within 45 days of receipt of the work plan for the College to receive up to \$1,750,000 of TPT revenues for the year. Further, State law requires the Arizona State Treasurer to transfer TPT revenues collected on the

Navajo Nation to the College monthly. In each fiscal year, no more than \$1,750,000 or one-tenth of the TPT revenues received from all sources located on the Navajo Nation, whichever is less, may be transferred (A.R.S. §42-5031.01 [A] and [C]). Laws 2021, Ch. 430, §17, allowed the Arizona State Treasurer to distribute \$3,500,000 to the College during fiscal year 2021 in lieu of the distribution required by A.R.S. §42-5031.01(C)(1). Additionally, applying a set of internal control standards, such as the *Standards for Internal Control in Federal Government* issued by the Comptroller General of the United States or the Committee of Sponsoring Organizations of the Treadway Commission's *Internal Control—Integrated Framework*, is essential to establishing and maintaining effective policies and procedures to achieve the College's objectives to comply with its funding compact requirements.^{1,2}

Recommendations—The College should:

1. Develop and implement policies and procedures detailing the preparation and submission requirements for its funding compact work plans, including:
 - a. Designating a responsible employee to prepare and submit the work plan.
 - b. Establishing a required submission deadline, preferably 60 days prior to the start of the fiscal year.
2. Submit its annual work plan to ADOA 60 days prior to receiving monthly TPT revenues from the State Treasurer to ensure that the College receives TPT revenues to achieve its objectives for the year.

¹ U.S. Government Accountability Office (GAO). (2014). *Standards for Internal Control in the Federal Government*. Washington, DC. Retrieved 5/10/2023 from <https://www.gao.gov/assets/gao-14-704g.pdf>.

² Committee of Sponsoring Organizations of the Treadway Commission (COSO). (2013). *Internal Control—Integrated Framework*. Retrieved 5/10/23 from <https://www.coso.org/sitepages/internal-control.aspx?web=1>.

COLLEGE RESPONSE



DINÉ COLLEGE

THE HIGHER EDUCATION INSTITUTION OF THE NAVAJO

Finance and Accounting Office

June 15, 2023

Lindsey A. Perry
Arizona Auditor General
2910 N. 44th St., Ste. 410
Phoenix, AZ 85018

Dear Ms. Perry:

The Navajo Nation, Diné College appreciates the opportunity to respond to the finding and recommendations of the Navajo Nation, Diné College-State of Arizona Funding Compact examination performed by the Arizona Auditor General.

Please see the College's corrective action plan on the following page.

Sincerely,

Bo Lewis

VP of Finance & Administration

Navajo Nation, Dine College

Corrective action plan

Year ended June 30, 2020

2020-01

Contrary to its funding compact with the State, the College did not timely prepare and submit its required annual work plan to the Arizona Department of Administration, resulting in the College being at risk of not receiving up to \$1,750,000 of transaction privilege tax revenues

Leon Jackson, Project Manager

Raychelle Leonard, Controller

Anticipated completion date: 07/01/2023

Dine College will complete the annual work plan and submit to Arizona Department of Administration prior to deadline date of June 30th every Fiscal Year. Dine College will develop a procedure to ensure the work plan is submitted timely on a Fiscal Year basis. The Dine College team will then work with Nola Barnes, Assistant Director with Arizona Department of Administration and Rueben Duran, Building & Planning Manager ADOA, to confirm the Dine College Annual Work Plan is currently on file.

