

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

Accepting the Performance Audit of the Veterans Loan Program Submitted by the Office of the Auditor General and Approving the Corrective Action Plan Submitted by the Department of Navajo Veterans Affairs

WHEREAS:

1. Pursuant to 12 N.N.C. § 7(D), the Budget and Finance Committee of the Navajo Nation Council is authorized to approve audit reports and corrective action plans; and

2. Pursuant to 12 N.N.C. § 2(A)(2), the Office of the Auditor General conducts performance audits and reviews of Navajo Nation programs and departments in accordance with government auditing standards; and

3. 12 N.N.C. § 4(E) and § 6(B) direct the Office of the Auditor General to prepare and present audit reports and post audit follow up reports to the Budget and Finance Committee of the Navajo Nation Council; and

4. The Office of the Auditor General conducted an audit of the Veterans Loan Program and issued Report 02-03 on December 17, 2001, attached hereto as Exhibit "A"; and

5. The Department of Navajo Veterans Affairs has submitted a corrective action plan, attached hereto as Exhibit "B", as required by 12 N.N.C. § 7(C), identifying the corrective actions that Veterans Loan Program will take to address the findings presented in the Performance Audit Report 02-03; and

6. The Office of the Auditor General has reviewed the Veterans Loan Program corrective action plan as required by 12 N.N.C. § 7(D) and determined that the plan reasonably addresses the findings reported in performance audit report 02-03.

NOW THEREFORE BE IT RESOLVED THAT:

1. The Budget and Finance Committee of the Navajo Nation Council hereby accepts Report No. 02-03 and approves the Department of Navajo Veterans Affairs corrective action plan, attached hereto as Exhibits "A" and "B" respectfully.

2. The Budget and Finance Committee of the Navajo Nation Council hereby directs that a copy of Report No. 02-03 and the Department of Navajo Veterans Affairs corrective action plan be forwarded to the Human Services Committee, which has oversight responsibility for Department of Navajo Veterans Affairs.

3. The Budget and Finance Committee of the Navajo Nation Council hereby directs Department of Navajo Veterans Affairs to submit a written report on the status of the corrective action plan to the Office of the Auditor General six (06) months after the approval of this resolution.

4. The Budget and Finance Committee of the Navajo Nation Council hereby directs the Office of the Auditor General to review the status report to be submitted by the Department of Navajo Veterans Affairs pursuant to Resolved Clause 3 (above) and report to the Budget and Finance Committee on the status of the corrective action plan.

5. The Budget and Finance Committee of the Navajo Nation Council hereby directs the Office of the Auditor General to conduct a follow up review twelve months after the approval of this resolution to verify action taken by the Department of Navajo Veterans Affairs to implement the corrective action plan and issue a report on the progress and make recommendations to the Budget and Finance Committee and the Human Services 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 at Window Rock, Navajo Nation (Arizona), at which a quorum was present and that same was passed by a vote of 5 in favor, 0 opposed and 0 abstained this 7th day of May, 2002.



Lorenzo Bedonie
Chairperson

Motion: Raymond Jones
Second: Albert E. Ross, Jr.

**Report to the
Budget and Finance Committee
of the
Navajo Nation Council**

**A Performance Audit
of the
Veterans Loan Program**

**Report to the
Budget and Finance Committee
of the
Navajo Nation Council**

**A Performance Audit
of the
Veterans Loan Program**

Audit Performed by:
Elizabeth Begay, Auditor III

SUMMARY

The Office of the Auditor General has conducted a performance audit of the Veterans Loan Program in response to concerns raised by the Budget and Finance Committee. This audit provides an assessment on the Veterans Loan Program's process in qualifying loan applicants and compliance with established operating policies and guidelines in administering the veteran loan program.

Finding I: The Veterans Loan Application Process Needs Improvement

The Veterans Loan Program needs to improve the process of assessing and qualifying loan applicants. Although the Veterans Loan Program is meeting the needs of Navajo veterans in obtaining loans, the Program takes about 28 calendar days to process a loan. Private lending agencies complete this same process within 48 hours.

Finding II: The Program Needs to Comply With Established Policies and Guidelines

Applicants who did not meet the loan eligibility criteria because their debt-to-income ratio exceeded 70 percent and/or they had questionable employment history were recommended for approval. In addition, credit verification on loan applicants were not conducted and unsecured loans were disbursed contrary to established policy.

Finding III: Minimal Collection Efforts Contributed to the High Delinquency Rate

The Veterans Loan Program and Office of the Controller's Accounts Receivable Section made minimal efforts in implementing collection procedures. As of June 30, 2001, there were 434 outstanding veteran loan accounts with a loan balance of approximately \$718,795. Of the 434 loan accounts, 272 (63%), with a balance of \$464,515 were 120 days or more delinquent. Further, of the 272 delinquent accounts, 83 accounts were more than five years delinquent and 101 accounts were more than ten years delinquent.

Finding IV: Loan Records Were Not Reconciled on a Regular Basis

The Veterans Loan Program has never maintained a record of the balance of the veterans loan fund. Since the intent of the veterans loan fund is to be lent out, repaid, then lent out again, it is important to have an accurate veterans loan fund balance at the beginning of the fiscal year to determine the funding level necessary to operate the loan program. Also, the focus of the loan activities is to maintain its capital. Accordingly, it is important to have an accurate veterans loan fund balance to inform management and the Program's oversight committee that the veterans loan fund's capital is being maintained.

INTRODUCTION AND BACKGROUND

The Office of the Auditor General has conducted a performance audit of the Veterans Loan Program administered by the Department of Navajo Veterans Affairs within the Division of Human Resources. The Budget and Finance Committee of the Navajo Nation Council requested this audit to determine whether the Veterans Loan Program is effective and efficient in meeting its goals and objectives and safeguarding Navajo Nation assets.

In 1986, the Navajo Nation Council appropriated \$750,000 from the general fund to establish the Veterans Loan Program. The operating policies and guidelines for the Veterans Loan Program were amended in September 2000. These policies and guidelines set out the objective and eligibility criteria for granting loans. The Veterans Loan Program provides loans up to \$3,000 to Navajo veterans, or their surviving spouse or Gold Star Mother (mother of unmarried servicemen killed in action). The purpose of the loans varies, although majority of the borrowers used the loans for home improvement.

The Department of Navajo Veterans Affairs employs two full time employees, a loan officer and a clerk III, to administer the Veterans Loan Program. The Navajo Nation accounting system uses a business-type proprietary fund to account for the activities of the Veterans Loan Program. The focus of the fund is to maintain its capital. Since the Program was established on April 30, 1986, more than \$4.0 million in veterans loans were disbursed. Table 1, on page 3 presents an overall summary of the Veterans loan fund activities as of June 30, 2001.

Objective, Scope and Methodology

In conducting the performance audit of the Veterans Loan Program, we limited our scope to address the Budget and Finance Committee's concerns and have established the following audit objectives:

- Determine whether the Veterans Loan Program is effective and efficient in meeting its purpose and objectives.
- Determine whether the Veterans Loan Program is administered in accordance with established operating policies and guidelines.

To meet these objectives, audit procedures included a review of loan records and files and interviews with appropriate personnel from the Department of Navajo Veterans Affairs and Accounts Receivable Section of the Office of the Controller to determine the process in approving and disbursing loans, and monitoring loan accounts. We tested a sample of loan accounts to verify compliance with established operating policies and guidelines. The accounts were selected using non-statistical, judgmental sampling methods.

This performance audit was conducted in accordance with Government Auditing Standards

issued by the Comptroller General of the United States. The Auditor General thanks the staff of the Department of Navajo Veterans Affairs and Accounts Receivable Section of the Office of the Controller for their cooperation and assistance throughout this audit.

Summary of Veterans Loan Fund Activities as of June 30, 2001:

Table 1
Veterans Loan Fund Activities

Fiscal Year	Loans Disbursed	Repayments (b)
1986	\$ 57,048	\$ 0
1987	506,064	153,233
1988	595,756	267,794
1989	105,722	183,483
1990	205,127	170,221
1991	335,297	401,912
1992	288,530	241,433
1993	286,517	269,964
1994	260,870	352,424
1995	246,274	305,477
1996	380,000	403,065
1997	310,000	301,049
1998	250,000	330,103
1999	311,600	301,192
2000	275,000	264,556
2001 (a)	<u>338,000</u>	<u>257,840</u>
Total	\$ 4,751,805	\$ 4,203,746

(a) FY2001 amounts are as of June 30, 2001.

(b) Repayments include principal amount plus interest

Source: Loans disbursed and repayments were obtained from the Financial Records System.

FINDING I

The Veterans Loan Application Process Needs Improvement

The Veterans Loan Program needs to improve the process of assessing and qualifying loan applicants. Although the Veterans Loan Program is meeting the needs of Navajo veterans in obtaining loans, the Program is inefficient in providing this service. The Veterans Loan Program takes about 28 calendar days from the date a complete loan application is received to the time the applicant is notified of qualifying for a loan.

Inefficiencies in assessing loan applications.

The Veterans Loan Program takes about 20 calendar days on average to assess loan applications. In assessing a loan application, the loan officer verifies the applicant's employment history and analyzes the applicant's financial status by calculating their debt-to-income ratio. Ideally, this process should not take long if applications are assessed upon receipt. However, the Veterans Loan Program batch processes its loan applications once every two or three weeks which prolongs the assessment process. Consequently, applications will accumulate and put on hold for many days before the applications are assessed by the loan officer. Compared to private lending agencies, which take as little as 48 hours in assessing applications and notifying applicants as to status of their application, the Veterans Loan Program is not assessing applications in the most efficient manner.

The loan officer stated that the assessment of loan applications is sometimes delayed until the procurement clearance is obtained from the Accounts Receivable Section and Credit Services Department. The procurement clearance is necessary to ensure compliance with the Navajo Nation Business Procurement Act. However, records show that procurement clearance is obtained within two days of submitting a request. Contrary to the loan officer's representation, the procurement clearance does not seem to be the reason assessing loan applications take too long. The loan officer further stated that batch processing of applications once every two or three weeks is cost effective because it saves time to assess applications. However, we believe that since the purpose of the Veterans Loan Program is to grant loans, its primary objective should be to assess applications promptly and notify applicants of their results immediately. In order to meet this objective, application assessments should be performed upon their receipt, rather than in batches once every two or three weeks.

Loan applicants are not immediately notified of assessment results.

The Veterans Loan Program does not immediately notify loan applicants as to the status of their applications. After the assessment is completed and procurement clearance is obtained,

the Veterans Loan Program takes another eight days on average to notify the applicant. The additional delay occurs because the loan officer waits for the Signature Authorization Sheet (SAS) package to be initiated pursuant to Title 2 of the Navajo Nation Code Section 164 review process before notifying the applicant. However, each SAS package is not prepared until it contains more than one loan application. The loan officer stated that Section 164 reviewers prefer to have several loan applications included in each SAS package because it saves time and resources to review several loan applications at one time. Consequently, applicants are unaware of their loan qualification until the SAS package containing their application is initiated under the Section 164 review process.

Although these are reviewer preferences, this should not preclude the loan officer from notifying the applicant of their loan qualification before the SAS packages are prepared. Rather, loan applicants should be immediately notified once assessments are completed but with the understanding that final approval of the loan is contingent upon completion of the Section 164 review process and approval by the appropriate standing committees.

Recommendations

The Veterans Loan Program should set a standard similar to private lending agencies to take as little as 48 hours for application assessments and proper notification. This standard would allow:

1. The loan officer to assess loan applications upon receipt.
2. The loan officer to immediately notify loan applicants as to status of their application after completing the assessment and obtaining procurement clearance.

FINDING II

The Program Needs to Comply With Established Policies and Guidelines

Loans were approved for applicants who did not meet the eligibility criteria and without credit verification. Also, all veterans loans are unsecured loans which is contrary to established policy that these loans be secured.

Ineligible applicants were approved for loans.

The Veterans Loan Program operating policy requires the use of debt-to-income ratio and employment history in qualifying an applicant for a loan. An applicant must demonstrate a steady employment history and a debt-to-income ratio not exceeding 70 percent to qualify. Our review of 75 loan account files revealed that 13 applicants were considered qualified and subsequently recommended for loan approval to the Budget and Finance Committee although their debt-to-income ratio exceeded 70 percent and/or they had questionable employment history. In addition, we noted that these same applicants were able to obtain final approval from the Budget and Finance Committee because their debt-to income ratio was not revealed in the application package presented to the Committee.

The loan officer stated that he recommended these ineligible applicants for loan approval because they were on payroll deduction. He believed that by requiring the borrower to pay through automatic payroll deduction, this would compensate for not meeting the eligibility criteria. The loan officer further claimed the automatic payroll deduction method provides reasonable assurance of loan repayment.

However, the Veterans Loan Program should not use the automatic payroll deduction as the sole basis for qualifying an applicant who should have been otherwise disqualified. The debt-to-income ratio and employment history are indicators of an applicant's financial capability to fully repay the loan. These eligibility criteria must be met to qualify an applicant irrespective of the loan repayment method. The Program should be cognizant of the risk that a borrower may resign or change employment before paying off the loan which would cause payroll deductions to stop. Once the automatic payroll deduction is stopped, there is no assurance that high risk borrowers with debt-to-income ratio exceeding 70 percent will keep their monthly payments current. This is clearly evident by the delinquent loans found during our review where the borrowers, who were previously paying through automatic payroll deductions, stopped making payments because they resigned and/or changed employment.

Disbursing unsecured loans.

According to the Veterans Loan policy, loans shall be secured to ensure the recovery of funds.

However, all veterans loans were found to be unsecured loans. The Veterans Loan Program did not enforce the policy by requiring borrowers to submit lien documents to secure their loans. Prior to the September 2000 policy amendment, borrowers on payroll deduction were required to pledge personal property with an estimated value of 50% of the principal loan amount and for borrowers not on payroll deduction, 100% of the principal loan amount. After the September 2000 policy amendment, only borrowers not on payroll deduction are required to pledge personal property as collateral to secure their loans. Despite these policies, none of the borrowers pledged personal property and submitted lien documents to secure their loans.

The loan officer stated the policy requiring borrowers to pledge personal property to secure their loans is not enforceable because the borrowers generally do not have personal property that they can pledge as collateral. However, the loan officer could not provide documentation to support his statement that borrowers do not have sufficient collateral, resulting in the Program's inability to enforce the policy. In addition, the Program amended the Veterans Loan Program policy and guidelines in September 2000 which still contains a provision requiring veterans loan be secured. Therefore, the Veterans Loan Program should enforce the established policy of requiring borrowers to pledge personal property to secure their loans. The Program should be cognizant that the collateral guarantees a borrower's asset against nonpayment of an obligation. In addition, the threat of repossession of borrowers' collateral generally compels borrowers to repay their loans. We found delinquent borrowers are not compelled to repay their loans, unless the Program can implement payroll deduction from these delinquent borrowers. However, there is a risk that the Program will not be able to collect from delinquent borrowers who are not on payroll deduction since the Program lacks recourse to repossess their personal property.

Thorough and sound credit analysis is not conducted.

According to the Veterans Loan policy, loans are only given upon a thorough and sound credit analysis. Our review of loan records show the loan officer is not conducting such analyses because of missing credit verifications. The loan officer assumes that loan applicants have either unfavorable credit rating or no established credit. As a result, credit verification on loan applicants are not performed and the loan officer accepts the financial debts and obligations disclosed by the applicants on their loan applications without verifying their accuracy. The loan officer believes that credit analysis based on credit reports would likely disqualify most, if not all, of the applicants.

Although we recognize that the Veterans Loan Program may be the only option for most of the applicants in obtaining a loan because of unfavorable credit history, the loan officer needs to follow the established policy of qualifying an applicant for a loan only upon a thorough and sound credit analysis. The Veterans Loan Program policy which requires the credit analysis on loan applicants provides reasonable assurance that loans disbursed will be promptly repaid and thus, sustain the loan fund for future veterans.

Recommendations

The loan officer should ensure that established policies and guidelines are followed by:

1. Recommending for approval only applicants who met the eligibility criteria such as a steady employment history and debt-to-income ratio not exceeding 70 percent.
2. Ensuring credit reports are obtained on loan applicants to enable the loan officer to verify the accuracy of the information disclosed by the applicants on their loan applications and make informed decision whether to qualify or disqualify an applicant for a loan.
3. Enforcing established policy by requiring borrowers to pledge personal property to secure their loans. The Veterans Loan Program should include this requirement as part of eligibility criteria under recommendation #1 above.

FINDING III

Minimal Collection Efforts Contributed to the High Delinquency Rate

The Veterans Loan Program and the Office of the Controller's Accounts Receivable Section made minimal efforts in implementing collection procedures. The Veterans Loan policy requires the Veterans Loan Program and Accounts Receivable Section, to quickly identify delinquencies and proceed with proper collection procedures. The staff claims one factor contributing to the poor collection efforts is the lack of a mechanism to timely identify overdue accounts. The Navajo Nation's accounting system is not equipped with an aging schedule to monitor the payment due dates of each loan account.

Not sending periodic overdue notices to delinquent borrowers.

In lieu of an aging schedule, the Accounts Receivable Section generates monthly detailed reports of loan accounts using a spreadsheet application. Although the detailed reports provide the necessary information on delinquent accounts, neither the Veterans Loan Program nor Accounts Receivable Section uses the reports to send periodic overdue notices to delinquent borrowers. It was not until our office notified the Veterans Loan Program of this audit that the Program and Accounts Receivable Section increased their collection efforts. They contacted the delinquent borrowers with written notices, which resulted in higher loan repayments during fiscal year 2001. Higher repayments translate to more funds available for loans. The \$400,000 available for loans in fiscal year 2001 was \$125,000 (45 percent) more over fiscal year 2000. Accordingly, more veterans were able to obtain loans in fiscal year 2001.

Table 2 shows the status of veterans loan accounts. Of the 272 veterans loan accounts with a balance of \$464,515 that were 120 days or more delinquent, 26 accounts show no payments whatsoever. Also, of these 120 days or more delinquent accounts, 101 accounts with an outstanding balance of \$186,079 were more than ten years delinquent and another 83 accounts with an outstanding balance of \$132,663 were more than five years delinquent.

(See Table 2 on the following Page)

Table 2
Summary of Loan Accounts Status
As of June 30, 2001

Status of Loans	Number of Loan Accounts	Outstanding Balance
Current	131	\$ 236,301
more than 30 days overdue	8	2,915
more than 60 days overdue	14	8,865
more than 90 days overdue	9	6,199
more than 120 days overdue	<u>272</u>	<u>464,515</u>
Total	434	\$ 718,795

Source: Office of the Auditor General's analysis of veterans loan accounts obtained from Accounts Receivable Section, Office of the Controller.

The lack of consistent and effective collection efforts contributed to the high delinquency rate for the veteran loans. Collection efforts need to be focused and strengthened to recover the overdue accounts. Ideally, collection efforts should be made by a collection officer but the Accounts Receivable Section does not have a collection officer on staff who can work exclusively in enforcing collection procedures. Currently, the accountant whose main responsibility is to maintain and monitor loan accounts, also acts as a collection officer when time permits. The Veterans Loan Program loan officer also serves as a collection officer. When the loan funds allocated for the fiscal year are exhausted, the loan activity is suspended. As a result, the workload of disbursing loans is significantly diminished, which permits the loan officer to conduct personal visits to delinquent borrowers.

Lack of segregation of duties by the Loan Officer.

Borrowers who are not on payroll deduction are paying in person directly to the Veterans Loan Program, rather than to the Navajo Nation Cashier's Office. The loan officer is responsible for collecting such repayments. This combination of duties allowing the loan officer to approve the loans, release the checks and collect repayments poses the risk of control weaknesses due to the lack of segregation of duties. Multiple roles for the loan officer negate adequate internal controls. Accordingly, we believe the Accounts Receivable Section should be the lead office to implement collection procedures. Further, borrowers paying in person or by mail should be instructed to make the payments directly to the Cashier's Office.

Not reporting the Veterans Loan Program repayment activity to the credit bureau.

The Veterans Loan Program is not reporting its loan repayment activity to the credit bureau. Generally, outside lending agencies report their loan repayment activity to a credit reporting agency which gathers financial credit information on borrowers. Borrowers who make timely repayment on their loans receive good credit scores while borrowers who default on their loans receive low credit scores. By not reporting its loan repayment activity to the credit bureau, the Veterans Loan Program is not rewarding its borrowers who make timely repayment because their good credit score is not recognized. On the other hand, the credit rating of borrowers who default on their loans is not damaged since they are not reported to the credit bureau. Therefore, the Veterans Loan Program should report its loan repayment activity to the credit bureau. The threat to delinquent borrowers of having their credit rating damaged can be an incentive for them to repay their loans.

Recommendations

1. The Veterans Loan Program and Accounts Receivable Section should strengthen collection efforts by implementing the collection procedures outlined in the Veterans Loan Program policies and guidelines which include, among other things:
 - a. Performing bi-monthly loan reviews of loan accounts to quickly identify overdue accounts.
 - b. Issue monthly account statements to borrowers.
 - c. Immediately notify borrower and cosigner of overdue payments:
 - 1) Contact the borrower and cosigner in writing if payment is not received prior to the 10th day following the due date.
 - 2) Written contacts should continue every ten days until the loan account is brought current.
 - 3) Imposed \$10 late charge for each month a payment is late.
 - 4) Declare the entire outstanding balance due and owing if payment is not received prior to the 60th day following the due date.
 - 5) Forward the loan account declared due and payable to the Navajo Nation Department of Justice for further legal actions.
2. The Accounts Receivable Section should reorganize its collection function by creating a collection officer position. The collection officer will be responsible for taking all necessary actions to enforce collection procedures on delinquent accounts which include, among other things:

- a. Issuing notification letters to delinquent borrowers.
 - b. Conducting personal visits to delinquent borrowers.
3. The Veterans Loan Program loan officer should be prohibited from undertaking multiple roles of being a loan officer and a collection officer to prevent the risk of control breakdowns. Accordingly, the loan officer should not collect repayments. Borrowers not on payroll deduction should be instructed to make payments directly to the Cashier's Office.
 4. The Veterans Loan Program should report its loan repayment activity to a credit reporting agency.

FINDING IV

Loan Records Were Not Reconciled on a Regular Basis

The Veterans Loan Program has never maintained a record of the balance of the veterans loan fund. Since the intent of the fund is to be lent out, repaid, then lent out again, loan repayments sustain the Veterans Loan Program. Also, the focus of the Veterans Loan Program in using the business-type proprietary fund to account for loan activities is to maintain its capital. It is important to know the actual veterans loan fund balance to determine the funding level necessary to operate the Program, as well as to inform management and the Program's oversight committee that the veterans loan fund's capital is being maintained. The Veterans Loan Program loan officer stated he relies on the assistant controller to determine the available loan fund balance and the funding level necessary to fund the Program each fiscal year. The loan officer only monitors the loan disbursements and relies on the assistant controller to monitor the repayments.

To determine the veterans loan principal repayments and interest earnings that should have been collected, we analyzed the performance of the veterans loan fund from April 30, 1986 through September 30, 2000. In doing the analysis, we created a model assuming all loans disbursed were for a three-year fixed term at nine percent interest rate and all borrowers timely repaid their loans. The three-year fixed term was based on the Veterans Loan operating policy that the term of any veterans loan will not exceed 36 months. We used the nine percent interest rate which the Veterans Loan Program staff stated borrowers were charged since the inception of the Program. Based on our amortization schedule for total loan disbursements of \$4,413,805 from April 30, 1986 through September 30, 2000, we estimated the total principal repayments at \$4,048,901 and total interest earnings at \$607,554.

Using this information, we calculated that the veterans loan fund should have a balance of \$992,650 as of September 30, 2000 as shown below.

Beginning Loan Fund Balance (1986 General Fund Appropriation)		\$ 750,000
Less: Loans Disbursed (1986-2000)		(4,413,805)
Add: Estimated Principal Repaid	\$ 4,048,901	
Estimated Interest Earned	<u>607,554</u>	<u>4,656,455</u>
Estimated Ending Loan Fund Balance (as of 09/30/00)		\$ <u>992,650</u>

Actual fund balance is substantially less than the estimated fund balance.

The Navajo Nation's financial statements for the year ended September 30, 2000 show veterans loan fund balance of \$179,401 which is substantially less than the estimated fund balance of \$992,650 that should have been in the fund. As shown below, the veterans loan balance that should have been in the fund based on our analysis is \$800,000 less than the actual balance.

Financial Statements Veterans Loan Fund Balance (year ended September 30, 2000),	\$ 179,401
Estimated Veterans Loan Fund Balance (year ended September 30,2000)	<u>992,650</u>
Difference	<u>\$ (813,249)</u>

Delinquent loan accounts and financial assistance given to veterans eroded the veterans loan fund balance.

Veteran loan account records maintained by Accounts Receivable Section show accounts that are delinquent 120 days or more totaled \$460,000. Of the \$800,000 difference between the veterans loan fund balance based on our analysis and the balance reported on the financial statements, \$460,000 is attributable to the delinquent accounts, leaving \$340,000 that we could not trace to outstanding loan accounts.

The \$340,000 difference may be attributable to funds disbursed as financial assistance rather than loans. The current loan officer who started working with the Veterans Loan Program in 1995 stated that prior to his employment, veterans fund may have been disbursed as financial assistance rather than loans. He explained that there were allegations that during the early 1990's, monies were disbursed from the fund without signed promissory notes. Since the Veterans Loan Program may not have submitted loan documentation to Accounts Receivable Section, loan accounts were not established for the monies disbursed from the veterans fund during the period in question. However, the loan officer could not provide documentation supporting his assertion that funds were given as assistance rather than loans. His assertion is based on his current dealings with veterans who expressed surprise upon being informed that monies disbursed from the veterans loan program is a loan and subject to repayment.

Overall, the delinquent accounts eroded the veterans loan fund balance. In addition, funds disbursed as assistance which is not subject to repayment further eroded the veterans loan fund balance. As a result, the veterans loan fund balance of \$179,000 as of September 30,

2000 is substantially less than the \$750,000 initially appropriated for the veterans loan fund. This shows that the Veterans Loan Program did not maintain the veterans loan fund's capital.

Recommendations

1. The Veterans Loan Program should maintain adequate records of veterans loan fund transactions, including loan disbursements and repayments.
2. The Veterans Loan Program should regularly reconcile its records to the Controller's records.
3. The Veterans Loan Program and the Controller's Office should determine the Program's funding needs at the beginning of the fiscal year based on the actual veterans loan fund balance.
4. The veterans loan fund activity should be routinely reported to the Budget and Finance Committee so as to keep the Committee informed that the Program is maintaining its capital.

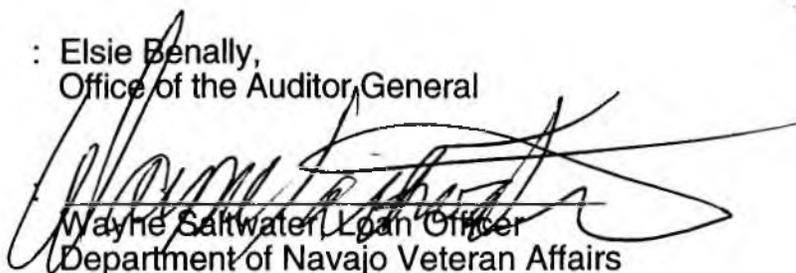
AUDITEE RESPONSE

December 10, 2001



MEMORANDUM:

TO : Elsie Benally,
Office of the Auditor General

FROM : 
Wayne Saltwater, Loan Officer
Department of Navajo Veteran Affairs

SUBJECT : Performance Audit of the Veterans' Loan Program

As requested, the following are the responses to the four audit findings. Most of the inefficiencies noted is due to staff shortage with the Veterans Loan Office. Furthermore, the Loan Officer performs other assigned duties that include being Acting Director of Department of Navajo Veterans Affairs (DNVA) and attending meetings. The present Clerk III has been employed since April 2001 and with her help, we are addressing some of the administrative deficiencies.

Responses to Findings:

I. DNVA agrees with the finding that it takes 20 days to access loan applications. The 164 Reviewers led me to believe that it was cost effective if more loan applications are assess at one time. This is the reason I let the loan applications accumulate before they are assessed. If Mirco-Business Loan under Economic Development Division can process a loan within 72 hours, the Veterans Loan Program can do the same. However, this will require legislative action of the Budget and Finance Committee and/or Navajo Nation Council, where authority can be given to the Veterans Loan Officer to approve loans. Subsequent to the loans, reports can be given to Budget and Finance Committee on monthly or quarterly basis. As of now, the Veterans Loan Program is assessing loan applications upon receipt and notifying applicants as to the status of their applications twice throughout the loan process. This finding is being addressed.

II. We agree with the audit findings that ineligible applicants were approved for loans. Some loans were made to borrowers with debt-to-income ratio exceeding 70% however this was done because they had good credit rating established with our Loan Office. The Veterans Loan Program does not have the equipment necessary to do credit check right away. The only way to verify the validity of credit references is either by phone or mail. This is time consuming process. DNVA will negotiate with Credit Services to see if they can assist in providing credit checks.

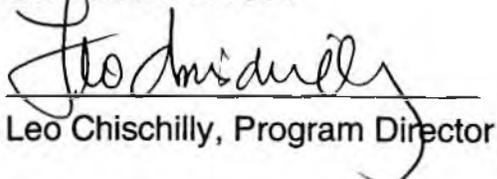
III. DNVA agrees that delinquent notices are not sent out immediately upon discovery, due to shortage of manpower. Employing a Collection Agent to carry out this function is recommended. Having such position will minimize the multiple roles of the loan officer. Until last month DNVA Veterans Loan Program was provided information in writing on the Statue of Limitation for the collections of loans through judicial action which is five years, otherwise, most of these uncollectable loans would have been written off.

IV. The maintenance of Veterans Loan balance is being maintain to some extent. As it is now, we are focusing on the maintenance of yearly Navajo Nation Council appropriation as recommended by the Controllers Office for each fiscal year. We currently keep track of our Veterans Loan balances so that we know how much is available, if any.

The summary of Veterans Loan Fund activities report dated June 30, 2001 on page three shows a constant improvement in the delinquency rate since 1995, therefore, Veterans Loan Officer should not be penalized for the delinquency that accumulated prior to 1995.

Thank You.

CONCURRENCE:


Leo Chischilly, Program Director

12/11/01
Date

cc:Chrono



THE NAVAJO NATION

KELSEY A. BEGAYE
PRESIDENT

TAYLOR MCKENZIE, M.D.
VICE PRESIDENT

January 25, 2002

MEMORANDUM:

TO : Elsie Benally, Auditor General
Office of the Auditor General

Thru : DuWaine Boone
DuWaine Boone, Executive Director
Division of Human Resources

FROM : Leo Chischilly
Leo Chischilly, Director
Department of Navajo Veterans Affairs

RECEIVED
JAN 25 2002
OFFICE OF THE
AUDITOR GENERAL

SUBJECT : Corrective Action Plan on the Veterans Loan Program

Attached is the Department of Navajo Veterans Affairs Corrective Action Plan in response to Report No. 02-03, a Performance Audit of the Veterans Loan Program.

Should you have any questions, call me at extension 7286 or contact Wayne Saltwater at extension 7284.

Attachments

cc: DuWaine Boone, Executive Director, DHR
Bobby White, Controller
Wayne Saltwater, Loan Officer
Chrono



**THE
NAVAJO
NATION**

KELSEY A. BEGAYE
PRESIDENT

TAYLOR MCKENZIE,
VICE PRESIDENT

October 01, 2001

MEMORANDUM:

TO : ALL CONCERNED
FROM : *Leo Chischilly*
Leo Chischilly, Director
DEPARTMENT OF NAVAJO AFFAIRS

SUBJECT : STANDING DELEGATION OF AUTHORITY (FY'2002)

Effective this date and ending September 30, 2002 in my absence, I am delegating my authority to the individuals listed below as the Acting Director of the Department of Veterans Affairs in the following order:

- Wayne Saltwater, Loan Officer
- Yvonne J. Claude, Administrative Service Officer I
- David Jose, Housing Specialist III

This standing delegation of authority will cover routine activities and priority items as well as attendance to meetings that may be called by the Division of Human Resources or other Departments. All other meetings requiring immediate administrative decisions should be brought to the Division of Human Resources' attention. Your cooperation is appreciated.

ACKNOWLEDGEMENT:

Wayne Saltwater
Wayne Saltwater, Loan Officer
DEPARTMENT OF VETERANS AFFAIRS

Yvonne J. Claude
Yvonne J. Claude, ASO I
DEPARTMENT OF VETERANS AFFAIRS

David Jose
David Jose, Housing Specialist III
DEPARTMENT OF VETERANS AFFAIRS

cc: File Copy

**Report to the
Budget and Finance Committee
of the
Navajo Nation Council**

**Response to
Performance Audit
of the
Veterans Loan Program**

**DEPARTMENT OF NAVAJO
VETERANS AFFAIRS**

The Navajo Nation

DEPARTMENT OF NAVAJO VETERANS AFFAIRS
January 24, 2002

FINDING: I	CORRECTIVE ACTION CITED BY AUDITOR GENERAL	HOW ACTION WILL BE IMPLEMENTED BY DEPARTMENT OF VETERANS AFFAIRS	TITLE OF INDIVIDUAL RESPONSIBLE	ANTICIPATED IMPLEMENTATION DATE
<p>Loan Application Process Needs Improvement.</p>	<p>1. Assess loan application upon receipt.</p>	<p>1. Loan applicant submits application to Clerk who will check for completion of required documents of information based on check list.</p> <p>2. Incomplete applications will be returned to applicant for correction of any discrepancy.</p> <p>3. Completed application will be date stamped and log-in and Clerk will place it in Loan Officer's incoming box.</p> <p>4. The same day the completed application is log in, Loan officer will submit a list of veteran applicant, spouse and co-signers names to Accounts Receivable Section and Credit Services Department for procurement check.</p>	<p>Clerk III</p> <p>Loan Officer Clerk III</p> <p>Clerk III</p> <p>Loan Officer</p>	<p>02/02/02</p> <p>02/02/02</p> <p>02/02/02</p> <p>02/02/02</p>
	<p>2. Notify loan applicants as to status of their application after completing assessment and obtaining procurement clearance.</p>	<p>5. Loan applicants who do not meet procurement clearance will be returned to applicants and those cleared will be assessed for further processing.</p> <p>6. Assessment will be completed within 24 hours of receipt of procurement clearance.</p> <p>7. After assessment the loan applicants will be notified immediately no later than the next business day of loan status through written correspondence.</p>	<p>Loan Officer Clerk III</p> <p>Loan Officer</p> <p>Loan Officer</p>	<p>02/02/02</p> <p>02/02/02</p> <p>02/02/02</p>

DEPARTMENT OF NAVAJO VETERANS AFFAIRS
January 24, 2002

FINDING: II	CORRECTIVE ACTION CITED BY AUDITOR GENERAL	HOW ACTION WILL BE IMPLEMENTED BY DEPARTMENT OF VETERANS AFFAIRS	TITLE OF INDIVIDUAL RESPONSIBLE	ANTICIPATED IMPLEMENTATION DATE
<p>The Program needs to comply with established Policies and Guidelines</p>	<p>1. Recommending for approval only applicants who met the eligibility criteria such as steady employment history and debt-to- income ratio not exceeding 70%.</p>	<p>1. Veterans Loan Officer throughly review application and recommend applicants with steady employment history and/or demonstrate steady source of income with in the last two years. Their debt ratio has to be at or below 70%.</p>	<p>Loan Officer</p>	<p>Presently On-Going</p>
	<p>2. Ensuring credit reports are obtained on loan applicants to enable the loan officer to verify the accuracy of the information disclosed by the applicants on their loan applications and make informed decision whether to qualify/disqualify an applicant for a loan.</p>	<p>2. Veterans Loan Officer will establish coordination with Credit Data Southwest, Inc. of Albuquerque, New Mexico to obtain credit report through their system.</p>	<p>Loan Officer Clerk III</p>	<p>04/02</p>
	<p>3. Enforcing established policy by requiring borrowers to pledge personal property to secure their loans. The Veterans Loan Program should include this requirement as part of eligibility criteria under recommendation #1 above.</p>	<p>3. Enforce established Veterans Operating Policies & Guidelines BFS-75-00, Section 9, loan documentation." If payroll deduction is not available, borrower must execute lien documents pledging and granting to the Navajo Nation as first lien holder on property with an estimated market value equal to or exceeding 100% of the principle amount of loan".</p>	<p>Loan Officer</p>	<p>Presently On-Going</p>

DEPARTMENT OF NAVAJO VETERANS AFFAIRS
January 24, 2002

FINDING: III	CORRECTIVE ACTION CITED BY AUDITOR GENERAL	HOW ACTION WILL BE IMPLEMENTED BY DEPARTMENT OF VETERANS AFFAIRS	TITLE OF INDIVIDUAL RESPONSIBLE	ANTICIPATED IMPLEMENTATION DATE
Minimal Collection Efforts Contributed to the High Delinquency Rate	1. The Veterans Loan Program and Accounts Receivable Section should strengthen collection efforts by implementing the collection procedures outlined in the Veterans Loan Program Policies & Guidelines.	1. Strengthen collection efforts by: a. Sending notification letters to delinquent borrowers monthly. b. Follow-up on the notification letter by contacting the delinquent borrowers by phone monthly. c. Conducting personal visits to delinquent borrowers based on availability of travel funds. d. Referring delinquent borrowers who are more than 120 days overdue to DOJ for legal actions.	Loan Officer Clerk III (Until a Collection Officer is hired)	02/19/02
	2. The Accounts Receivable Section should reorganize its collection function by creating a collection officer position. The collection officer will be responsible for taking all necessary actions to collection procedures on delinquent accounts.	2. Will propose for fiscal year 2003 budget the creation of Collection Officer position within the the Veterans Loan Office.	Director	08/15/02
	3. The Veterans Loan Officer should be prohibited from undertaking multiple roles of being a loan officer and collection officer to prevent the risk of control breakdowns. Accordingly, the loan officer should not collect repayments. Borrowers not on payroll deductions should be instructed to make payments directly to Cashier's Office.	3. Veterans Loan Officer is prohibited from accepting loan repayments. Veterans are now advised to send all their loan repayments to Accounts Receivable Section. Borrowers not on payroll deduction do go to Accounts Receivable first and to Cashiers.	Loan Officer Clerk III	02/02/02
	4. The Veterans Loan Program should report its loan repayment activity to a credit reporting agency.	4. Veterans Loan Office will start coordinating monthly credit report information with Credit Data SouthWest, Inc. from Albuquerque, NM.	Loan Officer Clerk III	05/03/02

DEPARTMENT OF NAVAJO VETERANS AFFAIRS
January 24, 2002

FINDING: IV	CORRECTIVE ACTION CITED BY AUDITOR GENERAL	HOW ACTION WILL BE IMPLEMENTED BY DEPARTMENT OF VETERANS AFFAIRS	TITLE OF INDIVIDUAL RESPONSIBLE	ANTICIPATED IMPLEMENTATION DATE
<p>Loan Records Were Not Reconciled on a Regular Basis</p>	<p>1. The Veteran Loan Program should maintain adequate records of veterans loan fund transactions, including loan disbursements and repayments.</p>	<p>1. We have implemented the following to address the corrective action.</p> <ul style="list-style-type: none"> a. By SAS numbers with loan recipients names and amount. b. By Chapters c. By Agencies d. Loan disbursement balance base on yearly appropriation. e. Loan repayments based on information obtained from General Accounting via monthly general ledger account. 	<p>Loan Officer Clerk III</p>	<p>02/02/02</p>
	<p>2. Veterans Loan Program should regularly reconcile its records to the Controller's records.</p>	<p>2. Will coordinate with Contoller's Office and Finance Section to reconcile our Fund Balance records monthly.</p>	<p>Loan Officer</p>	<p>02/02/02</p>
	<p>3. The Veterans Loan Program and the Controller's office should determine the Program's funding needs at the beginning of the fiscal year based on the actual veterans loan fund balance.</p>	<p>3. Continue to coordinate with Controller's office for program funding needs at the beginning of each fiscal year.</p>	<p>Loan Officer</p>	<p>02/02/02</p>
	<p>4. The Veterans loan fund activity should be routinely reported to the Budget and Finance Committee so as to keep the Committee informed that the Program is maintaining its capital.</p>	<p>4. Veterans Loan Program will make quarterly Fund Balance Report to Budget & Finance Committee.</p>	<p>Loan Officer</p>	<p>Presently On-Going</p>