

SUMMARY

The Office of the Auditor General has conducted a compliance audit of the Navajo Nation Bodaway/Gap Chapter (Chapter) for the 18-month period ended March 31, 2002. The audit determines the extent to which the Chapter has established appropriate internal controls and general accounting practices to ensure compliance with applicable laws, regulations, policies and guidelines, and proper accountability for Chapter assets and resources.

FINDING I: Chapter Internal Controls Need Strengthening.

Control weaknesses exist within the Chapter's cash receipt and disbursement processes. Currently, cash receipts are not completely recorded and fully deposited into a bank account. The lack of periodic reconciliations of cash receipt activities contributed to unidentified revenues. Disbursements lacked adequate supporting documentation, proper approval and did not comply with applicable funding guidelines. These deficiencies resulted in questioned costs totaling \$28,527 for the audit period.

There is also a need to improve controls over fund activities. PEP funds were used for wood purchases contrary to fund intentions and agreements were executed contrary to Navajo Nation laws. The Chapter also unnecessarily withheld Housing Discretionary funds citing no Chapter guidelines for awarding assistance. However, it was noted that alternative guidelines were available for the Chapter's use since March 2001. As a result, community needs for housing assistance were neglected. Lastly, the Chapter's payroll process lacked proper records, allowed erroneous deductions and disregarded IRS requirements.

FINDING II: Chapter Accounting System Requires Further Improvement.

Typical accounting records such as ledgers and journals need to be established, and accounting procedures such as reconciliations, check signing and periodic inventories need improvement. These records and procedures are important to allow the Chapter's accounting system ensure proper accountability of funds and compliance with laws and regulations. The Chapter's budgetary controls also need strengthening to make sure all expenditures are community approved. Chapter records need to be updated and maintained on file at the Chapter house. The Chapter fixed asset inventory listing needs to be updated to account for all items. Currently, several items totaling \$55,599 based on acquisition cost cannot be located. A current listing will also ensure the Chapter maintains sufficient insurance coverage for its fixed assets. The accounting system needs to also provide for complete, accurate and timely financial reports to the Chapter membership by the Chapter staff and officials.

FINDING III: Chapter Five Management System Is Slowly Progressing.

The Chapter claims it is currently developing the FMS policies and procedures. To date, the Chapter has received two separate standard manuals from the LGSC to assist with these development efforts. Unless improved, the internal control deficiencies noted in the previous findings will hinder the effectiveness of the FMS. The Chapter staff requires further training in order to generate financial statements and prepare the Chapter for LGA certification review.