

To'Nanees'Dizi Chapter LGA Certification

Scope, Objectives and Methodology

We have reviewed the To'Nanees'Dizi Chapter's Five Management System for the three month period ending April 30, 2004. The purpose of our review was to determine whether To'Nanees'Dizi Chapter has met the objectives of a five management system, as defined by 26 Navajo Nation Code (N.N.C.), the Local Governance Act. We conducted our review in accordance with *Government Auditing Standards*, performance audit standards, issued by the Comptroller General of the United States.

Our review included obtaining an understanding of the internal control policies and procedures established by the Chapter's five management system, evaluating the design effectiveness of the internal control procedures, determining whether such procedures have been placed in operation and other procedures we consider necessary to form a conclusion on whether the Chapter has met the objectives of a five management system.

The Navajo Nation Local Governance Act, 26 N.N.C., defines a five management system to include accounting, procurement, record keeping, personnel, and property management. During our review, we evaluated To'Nanees'Dizi Chapter's achievement of its Five Management System objectives in the areas of financial reporting, safeguarding of assets and compliance with laws and regulations. Our review did not include an evaluation of To'Nanees'Dizi Chapter's operational effectiveness and efficiency beyond the five management system. Consequently, we provide no conclusion regarding the effectiveness and efficiency of the overall Chapter operations.

Background

26 N.N.C. §101 requires chapter management to adopt and operate under a five management system. As such, the management of the chapter is responsible for establishing and maintaining a five management system that provides reasonable assurance that:

- Financial transactions are authorized, valid and properly recorded to permit the preparation of basic financial statements and other financial reports.
- Assets are safeguarded against loss from unauthorized disposition or use.
- Chapter activities in the areas addressed by its five management system comply with applicable laws and regulations.

The To'Nanees'Dizi Chapter Five Management System policies and procedures were developed and initially adopted on March 12, 2004. The To'Nanees'Dizi Chapter has continuously operated under its five management system since that time and amended some procedures, as appropriate, to correct deficiencies in its policies.

Review Results

We noted no material weaknesses involving the To'Nanees'Dizi Chapter Five Management System and its operation. A material weakness is defined as a condition in which the design or operation of one or more management control does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Auditing standards require us to note that an examination of this type does not necessarily disclose all matters in internal control that might be material weaknesses.

Accounting System

To'Nanees'Dizi Chapter recognizes its revenue in the period when cash is received and deposited. Expenditures are recognized when cash is paid. Accordingly, To'Nanees'Dizi Chapter's financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than generally, accepted accounting principles. Additionally, To'Nanees'Dizi Chapter prepares general purpose financial statements in accordance with government reporting standards that have since been updated. A new government reporting model is effective starting July 1, 2003. However, we conclude that the chapter's financial reporting is still reliable and accurate for the purposes of the chapter's current operations. Since the chapter approved the amendments to the Local Governance Act, the chapter is in compliance with the provisions set forth in the Local Governance Act with regard to financial reporting.

Conclusion

Based on our review of the three-month period ended April 30, 2004, we concluded that the To'Nanees'Dizi Chapter Five Management System provides reasonable assurance that financial reporting is reliable and accurate, assets are safeguarded from loss and applicable laws and regulations are complied with. Therefore, we recommend that the Transportation and Community Development Committee (TCDC) approve To'Nanees'Dizi Chapter for governance certification within the meaning of 26 N.N.C. §102.

Limitations of a Five Management System

Although we conclude that To'Nanees'Dizi Chapter currently has an adequate five management system for financial reporting, safeguarding of assets or compliance with laws and regulations, we must note that any control system can only provide reasonable, not absolute, assurance that the chapter will achieve its management system objectives. No control system can prevent all problems. In addition, the effectiveness of control system changes over time.

Maintaining an adequate five management system designed to fulfill control objectives is the responsibility of To'Nanees'Dizi Chapter management. Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, controls that are effective now may later become deficient because of the performance of those responsible for applying them. Finally, future changes in the chapter organization may reduce the effectiveness of the controls established by the chapter's five management system. In the event that the chapter fails to maintain an effective five management system, the TCDC enacted resolution TCDC-94-98 to establish procedures to revoke chapter certification.