

## SUMMARY

The Office of the Auditor General conducted a compliance audit of Chinle Chapter (Chapter) for the 18-month period ending March 31, 2007. The audit determines the extent to which the Chapter has established appropriate internal controls and general accounting practices to ensure proper accountability for Chapter assets and resources, and compliance with applicable laws and regulations.

### **FINDING I: Chapter internal control structure needs strengthening.**

The Chapter's internal control structure needs to be strengthened to address the various control deficiencies noted in our review. Cash controls need significant improvement. Revenues are not deposited intact into the Chapter's bank account resulting in \$5,474 cash received that could not be accounted for and presumed missing. In addition, the lack of controls over Chapter expenditures resulted in questioned costs of \$39,816. Important records such as payroll registers and property inventory were not maintained. Consequently, inaccurate payroll taxes were remitted and there was no assurance all Chapter property and equipment was accounted for. Compliance test work also revealed that the Chapter does not fully comply with applicable funding guidelines or policies.

### **FINDING II: Chapter Accounting System Can Be Improved**

Adequate accountability over assets and resources requires establishing appropriate accounting records and implementing general accounting practices. The Chapter's accounting records could be improved by ensuring Chapter records are reconciled, and the Chapter budget process needs to be more effective in the development and adoption of budgets for all Chapter funds including its Chapter carryover fund. These improvements in the accounting system will facilitate financial reporting. Currently, the staff is not providing financial information to the Chapter officials and contrary to Navajo Nation law, financial reports are not presented monthly to the Chapter membership. Lastly, the internal control deficiencies noted in Finding I will need to be strengthened to improve the Chapter's accounting system.

### **FINDING III: Implementation of Five Management System will ensure better accountability.**

The Local Governance Act requires the Chapter to adopt and operate under a five management system (FMS). Nine years have passed since LGA was enacted, but the Chinle Chapter has not adopted a FMS. Although policies and procedures are developed to properly expend funds, the Chapter has not implemented the procedures, therefore the Chapter continues to have control deficiencies and non-compliance issues with Navajo Nation law and funding guidelines. The adoption and implementation of the FMS will help correct the control deficiencies, as well as address the work performance of the staff and ensure the Chapter officials exercise greater monitoring over staff performance.

In addition to the three findings summarized above, the audit report contains recommendations for improving the Chapter's internal controls and accounting system.