

## SUMMARY

The Office of the Auditor General conducted a compliance audit of Thoreau Chapter for the 18-month period ending March 31, 2008. The audit is conducted in response to a community request for review of the financial records of the Chapter. 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 lacks adequate internal controls.**

Internal controls allow the Chapter to operate under a system that minimizes questionable practices. However, even with established control policies and procedures the Chapter has difficulty in consistently exercising adequate internal controls. This led to questioned costs, non-compliance with funding guidelines, poor records management, unpaid payroll taxes, and lack of safeguarding Chapter assets. These deficiencies signify that the Chapter needs to strengthen internal controls to ensure proper accountability and fiscal responsibility over Chapter assets and resources.

### **FINDING II: Cash receipts activities lack accountability.**

Cash is a high risk asset that can be easily mismanaged. Therefore, it is imperative that cash receipts be properly recorded on cash receipt tickets and summarized to the cash receipts journal. Monitoring by Chapter officials is also important to ensure all funds are properly accounted for and deposited intact. However, the cash receipt activities for Thoreau Chapter lacks accountability. Cash receipts recorded on cash receipt tickets were not summarized in the cash receipts journal. In addition, our comparison of cash receipt tickets to the bank deposits found approximately \$1,471 of cash receipts not deposited during the 18-month audit period. Furthermore, the Chapter could not provide documentation for approximately \$33,071 of cash withdrawals from the savings account.

### **FINDING III: Chapter records are in poor condition.**

The Thoreau Chapter is not maintaining an adequate accounting system to account for Chapter finances. The Chapter did not develop budgets for some Navajo Nation allocations, Chapter activity revenue, and carry over funds. Ledgers that are important in monitoring the accounting transactions were non-existent. The Chapter is not properly using its chart of accounts to ensure financial transactions are accurately recorded. The bank account records are not properly managed to safeguard against unauthorized expenditures.

### **FINDING IV: Chapter Five Management System needs to be implemented to improve accountability.**

The Local Governance Act requires the Chapter to adopt and operate a Five Management System (FMS). Although the Chapter has developed and adopted a FMS, the Chapter has not fully implemented the policies and procedures. Therefore, the Chapter continues to have control deficiencies and non-compliance issues with funding guidelines. In addition, the Chapter does not have reliable financial reports. Consequently, the Chapter is not providing financial reports to the community membership.

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