

# SUMMARY

The Office of the Auditor General conducted an audit of the Sheep Springs Chapter (Chapter) in response to the Northern Navajo Agency Local Governance Support Center (LGSC) action in withholding restricted-use Chapter funds from direct disbursement to the Chapter. The Fiscal Year 2004 restricted-use funds to the Navajo Nation Chapter in the amount of \$130,496 was withheld by agreement between the LGSC and the Sheep Springs Chapter officials.

## **FINDING I: The Chapter Lacked Internal Controls.**

Cash receipts were neither completely recorded nor reconciled. Thus, there was no assurance all cash receipts were deposited intact. Expenditures incurred did not comply with fund guidelines and conditions of appropriation, which resulted in questioned costs of \$26,803 (64%) from a sample of \$41,755 disbursements reviewed. For example:

- \$5,055 of Housing Discretionary Fund was used without establishment of due process.
- \$3,640 of Public Employment Program fund was unsupported.
- \$3,480 of Local Governance Grant expenditures was unsupported, and/or unallowed.

Other internal control deficiencies were: (a) noncompliance with Internal Revenue Service regulations and the Navajo Nation Sales Tax Act, (b) lack of monitoring over sales activities and property, and (c) not ensuring the staff is performing their duties. In addition, the Chapter was previously audited for the two year period ended March 31, 1992, but several audit recommendations were never implemented. Therefore, the deficient conditions found during the previous audit still exist.

## **Finding II: The Chapter Lacked An Acceptable Accounting System.**

Financial records were disorganized, unavailable, and have not been established or maintained. Check register and fund ledgers were not maintained, and bank reconciliations were not prepared to monitor fund activities. Lack of maintaining fund ledgers caused unallowable expenditures of the Public Employment Program fund by \$5,322. The unallowed expenditures result in use of restricted funds due to restricted and unrestricted funds being deposited into the same bank account but without separate accounting for each fund. In addition, the staff was unable to prepare financial statements. As a result, financial reports provided to the community were insufficient and reports did not disclose the overall finances of the Chapter. Consequently, the Chapter could not provide reasonable assurance that Chapter funds were appropriately expended and accurately reported.

## **Finding III: The Chapter Lacked An Effective Five Management System.**

The Chapter did not have a five management system (FMS) policies and procedures manual. Therefore, policies and procedures to provide internal controls and compliance with Navajo Nation and other applicable laws and regulations did not exist. There is no target date when the FMS will be completed, adopted by the community and fully implemented. As a result, the Chapter could not provide reasonable assurance that all assets and resources were reported, adequately safeguarded, used effectively and efficiently, and for their intended purposes.