

Summary

The Office of the Auditor General conducted an audit of the Upper Fruitland Chapter (Chapter) in response to community members' request. The community members raised concerns on whether the Chapter properly accounts for Chapter assets and resources, and complies with applicable laws, policies and guidelines.

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 appropriations, which resulted in questioned costs of \$109,833 (93%) from a sample of \$117,708 disbursements reviewed. For example:

- \$58,632 classified as General Fund expenditures were not community approved.
- \$9,565 of Housing Discretionary Fund was used without establishment of due process.
- \$8,483 of Emergency Fund expenditures is unapproved, unsupported, and/or unallowed.

Other internal control deficiencies were: (a) noncompliance with Navajo Nation Sales Tax Act and Internal Revenue Service regulation, (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, 1995, but the 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 General Fund by \$12,004. The over-expenditures results 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; 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 has a five management system (FMS) policies and procedures manual. Although it is incomplete, it can still be implemented to provide some internal controls and for compliance with most Navajo Nation and other applicable laws and regulations. However, the policies and procedures have neither been adopted nor implemented. Additionally, there was no definite date or time when the five management system will be adopted by the community and fully implemented. Therefore, the Chapter could not provide reasonable assurance that all assets and resources were reported, adequately safeguarded, and used effectively, efficiently, and for their intended purposes.