

SUMMARY

The Office of the Auditor General conducted a limited scope audit of the Houck Chapter in response to the concerns raised by the Fort Defiance Local Governance Support Center for the 12-month period ended March 31, 2005. This audit determines the extent to which the Houck Chapter has established appropriate internal controls and general accounting practices to ensure compliance with applicable laws, policies and guidelines, and proper accountability over assets and resources.

FINDING I: The Chapter lacks internal controls.

Control weaknesses exist within the Houck Chapter's cash receipt and disbursement processes. Currently, cash receipts are not recorded and completely deposited into a bank account; therefore cash receipts of \$179 cannot be accounted for. The lack of cash receipt reconciliations contributed to recording errors. Disbursements lacked adequate supporting documentation, proper approval, and budgetary controls. These deficiencies resulted in questioned costs of \$37,884 (80%) from a sample of \$47,597 disbursements reviewed.

There is a need to improve controls over fund activities. Six restricted funds were over expended contrary to the Local Governance Act. The Public Employment Program Fund is not managed properly. The Sales Tax Fund is not used in accord with the approved budget. The Chapter Activity and Emergency Fund are expended for travel related activities without adequate supporting documentation and authorization. This resulted \$307 in unallowable expenditures. The Chapter Official Stipend Fund was expended for official pro-tempore stipends that do not comply with the Local Governance Act. This resulted in \$4,500 in unallowable expenditures.

The Houck Chapter is not properly and competitively procuring goods and services. Reports and payments for payroll and sales tax are not properly remitted to the Internal Revenue Service and Navajo Nation Office of Tax Commission, respectively. There is also no approved budget for the internally generated revenue and Fiscal Year 2005 supplemental appropriations. Lastly, the monitoring by Chapter officials over administrative staff needs improvement.

FINDING II: The Chapter has not established an adequate accounting system.

The Houck Chapter's system of recording and reporting revenues and expenditures is inadequate and inaccurate, and therefore unreliable. Seven checks were issued for \$4,779 that was not cosigned. Financial reports are not provided to the community because administrative staff does not develop financial reports. The Local Governance Support Center provided training but the staff did not attend all of the training sessions.

FINDING III: The Chapter has not established a five management system.

The Houck Chapter has yet to fully develop, adopt, and implement comprehensive five management system policies and procedures. The five management system manual lacks detailed policies and procedures to provide internal controls and ensure compliance with Navajo Nation and other applicable laws and regulations. There is no definite date or the length of time when the five management system will be completely developed, adopted by the community and fully implemented. At this time, the Houck Chapter is not *generating financial statements*.