

## SUMMARY

The Office of the Auditor General conducted a compliance audit of Baca/Prewitt Chapter for the two-year period ending September 30, 2006. 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 and the lack of adequate expenditure controls resulted in questioned costs totaling approximately \$112,410. Important records such as payroll registers and property inventory were not maintained. Consequently, the chapter was late in remitting payroll taxes and there is no assurance all property and equipment was accounted for. Compliance test work also revealed that the chapter does not fully comply with applicable funding guidelines or policies. Noncompliance with grantor requirements potentially jeopardizes future funding for the chapter.

### **FINDING II: Chapter accounting system requires improvement.**

Adequate accountability over assets and resources requires establishing appropriate accounting records and implementing generally accepted accounting practices. The chapter's accounting records could be improved by correcting the chart of accounts and fund ledgers. The chapter budget process needs to be effective with the development and adoption of budgets for all chapter funds including its chapter activity fund. These improvements in the accounting system will lead to improvements in the chapter's financial reporting. Currently, the staff is providing limited financial information and contrary to Navajo Nation law, the 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 FMS will ensure better accountability.**

LGA requires the chapter to adopt and operate under a five management system (FMS). The Baca/Prewitt Chapter adopted its FMS manual on July 15, 2005 but the manual has not been implemented. Since the FMS manual was not implemented, this likely contributed to several control deficiencies and noncompliance with Navajo Nation law and funding guidelines. Problematic areas include the lack of adherence to the Navajo Nation Procurement Act and overall poor recordkeeping. The implementation of the FMS manual will also help address the work performance of the staff and ensure the chapter officials exercise greater oversight over staff performance.

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