

SUMMARY

The Office of the Auditor General conducted a compliance audit of Klagetoh Chapter (Chapter) for the 17-month period ending February 29, 2008. 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

The Chapter lacks adequate internal controls over cash receipts and disbursement activities. Cash is a high risk asset that can be easily mismanaged. It is imperative that cash receipts be properly recorded to cash receipt tickets, summarized to the cash receipts journal, and deposited intact into the Chapter bank account. We found the Chapter is not summarizing cash receipt tickets into the cash receipts journal and depositing all cash receipts into the Chapter's bank account. During the 17-month audit period ending February 29, 2008, we identified \$36,822 cash received that were not deposited. The Chapter officials and staff could not account for the disposition of the undeposited cash which are presumed missing. In addition, Chapter funds were disbursed without community approval resulting in unauthorized expenditures. Also, the Chapter was unable to show adequate documentation to support checking account disbursements. The lack of controls over expenditures resulted in questionable chapter disbursements. Further, controls over chapter inventory are weak. The Chapter cannot provide reasonable assurance that all its property and equipment are accounted for and safeguarded against loss or misuse.

FINDING II: Chapter accounting records are poorly managed

Adequate accountability over assets and resources requires establishing appropriate accounting records and implementing generally accepted accounting practices. The Chapter accounting records are in poor condition. Fund and subsidiary ledgers that account for the activities of the various Chapter funds are not maintained. A ledger to track the Chapter's investment account was not established. The Chapter withdrew \$4,000 from its investment account without documenting the withdrawal and informing the Chapter membership. Furthermore, the Chapter did not develop a budget for the General Activity and Emergency funds and expended the funds without obtaining community approval. For Navajo Nation appropriated funds that have approved budgets, we found the Chapter expended the funds contrary to these approved budgets. This shows total disregard to the Chapter membership's adopted budget in expending Navajo Nation appropriated funds. In addition, the staff is not preparing financial reports; as a result, monthly financial reports are not presented to the Chapter membership.

FINDING III: Non-Implementation of a Five Management System

The Local Governance Act requires the Chapter to adopt and operate under a five management system (FMS). Although the Chapter has developed and adopted a FMS, the Chapter has not implemented the policies and procedures. Therefore, the Chapter continues to have control deficiencies and non-compliance issues with funding guidelines.

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