

## SUMMARY

The Office of the Auditor General conducted a compliance audit of Shiprock Chapter (Chapter) for the 21-month period ending June 30, 2007. 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 Controls are Weak.**

The Chapter's internal control structure is weak. Chapter funds were disbursed without community approval resulting in unauthorized expenditures. In addition, the Chapter was unable to show adequate documentation to support disbursements for goods and services purchased. Requisitions, fund approval forms, quotations, receiving reports, vendor invoices, meeting stipend claim forms for chapter officials, and travel authorization forms for chapter officials and employees were not on file to support disbursements selected for review. The lack of controls over Chapter expenditures resulted in questioned costs of approximately \$60,000, which is 84% of \$71,000 sample disbursements reviewed. Also, compliance test work revealed that the Chapter does not fully comply with applicable funding guidelines or policies for the Housing and Public Employment Project funds. Furthermore, the Chapter cannot provide reasonable assurance that all property and equipment owned and controlled by the Chapter was accounted for and safeguarded against loss or misuse.

### **FINDING II: Chapter Accounting Records are Unreliable.**

The Chapter's accounting records cannot be relied upon to provide accurate financial reports. The Chapter maintains two sets of accounting records to document financial transactions. Review of both sets of accounting records found neither record to be complete, accurate nor do they reconcile with each other. Both sets of accounting records cannot be relied upon to provide accurate information about Chapter finances. Also, the Chapter did not prepare bank reconciliations for its checking account from July 2006 through June 2007. As a result, the Chapter could not provide accurate information about its cash balance.

### **FINDING III: Chapter FMS is Not Being Implemented.**

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. The implementation of a FMS will help correct the control deficiencies identified in Finding I and II.

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