

SUMMARY

The Office of the Auditor General conducted a compliance audit of Mexican Water Chapter (Chapter) for the 22-month period ending July 31, 2008. The audit is conducted pursuant to the authority vested in the Office of the Auditor General by 12 N.N.C., Chapter 1, Section 1 - 10. 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

Internal controls allow the Chapter to operate under a system that minimizes questionable practices. However, even with established control policies and procedures, the Chapter has difficulty in consistently exercising adequate internal controls. This led to questioned costs, non-compliance with funding guidelines, inaccurate bank reconciliations, untimely updating of the bank signature card, lack of a perpetual inventory system, inconsistent management of the property rental activities, lack of safeguarding Chapter assets, and undocumented pertinent personnel records. These deficiencies signify that the Chapter needs to strengthen internal controls to ensure proper accountability and fiscal responsibility over Chapter assets and resources.

FINDING II: Management Over Financial System Needs Strengthening

The reliability of the Mexican Water Chapter's financial records was questionable, therefore the Chapter needs to strengthen its management of the financial system. The Chapter ledgers do not reconcile and therefore do not properly support the financial statements. The Chapter did not develop budgets for its carry over funds and internally generated Chapter activity fund but nonetheless continued to expend these funds. Lastly, the Chapter is unable to monitor its investment account with proper accounting records and monthly bank reconciliations.

FINDING III: Chapter Five Management System Needs To Be Implemented to Improve Accountability

The Local Governance Act requires the Chapter to adopt and operate a Five Management System (FMS). Although the Chapter has developed and adopted a FMS, the Chapter has not fully implemented the policies and procedures. Therefore, the Chapter continues to have control deficiencies and non-compliance issues with funding guidelines. In addition, the Chapter is not providing consistent and reliable financial reports to the community membership.

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