

## LeChee Chapter LGA Review

### Scope, Objectives and Methodology

The Office of the Auditor General, in conjunction with Harshwal and Company LLP, Certified Public Accountants have reviewed the LeChee Chapter's Five Management System for the three month period ending September 30, 2011. The purpose of the review was to determine whether LeChee Chapter (Chapter) has met the objectives of a five management system, as defined by 26 Navajo Nation Code (N.N.C.), the Local Governance Act.

The review included obtaining an understanding of the internal control policies and procedures established by the Chapter's Five Management System, evaluating the design effectiveness of the internal control procedures, determining whether such procedures have been placed in operation and other procedures we consider necessary to form a conclusion on whether the Chapter has met the objectives of a five management system.

The Navajo Nation Local Governance Act, 26 N.N.C., defines a five management system to include accounting, procurement, record keeping, personnel, and property management. During our review, we evaluated LeChee Chapter's achievement of its Five Management System objectives in the areas of financial reporting, safeguarding of assets and compliance with laws and regulations. Our review did not include an evaluation of LeChee Chapter's operational effectiveness and efficiency beyond the five management system. Consequently, we provide no conclusion regarding the effectiveness and efficiency of the overall Chapter operations.

### Background

26 N.N.C. §101 requires chapter management to establish a five management system that provides reasonable assurance that:

- Financial transactions are authorized, valid and properly recorded to permit the preparation of basic financial statements and other financial reports.
- Assets are safeguarded against loss from unauthorized disposition or use.
- Chapter activities in the areas addressed by its five management system comply with applicable laws and regulations.

### Review Results

The review noted no material weaknesses involving the LeChee Chapter Five Management System and its operation. A material weakness is defined as a condition in which the design or operation of one or more management control does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material

may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Auditing standards require us to note that an examination of this type does not necessarily disclose all matters in internal control that might be material weaknesses.

### **Accounting System**

LeChee Chapter's financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conclude that the Chapter's financial reporting is reliable and accurate for the purposes of the Chapter's current operations.

### **Conclusion**

LeChee Chapter Five Management System provides reasonable assurance that financial reporting is reliable and accurate, assets are safeguarded from loss and applicable laws and regulations are complied with. Therefore, we recommend that the Resources and Development Committee approve LeChee Chapter for governance certification within the meaning of 26 N.N.C. §102.

### **Limitations of a Five Management System**

Although we conclude that LeChee Chapter currently has an adequate five management system for financial reporting, safeguarding of assets or compliance with laws and regulations, we must note that any control system can only provide reasonable, not absolute, assurance that the Chapter will achieve its management system objectives. No control system can prevent all problems. In addition, the effectiveness of a control system changes over time.

Maintaining an adequate five management system designed to fulfill control objectives is the responsibility of LeChee Chapter management. Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, controls that are effective now may later become deficient because of the performance of those responsible for applying them. Finally, future changes in the Chapter organization may reduce the effectiveness of the controls established by the Chapter's Five Management System. In the event that the Chapter fails to maintain an effective five management system, resolution TCDC-94-98 established procedures to revoke chapter certification.