

SUMMARY

The Office of the Auditor General conducted a compliance audit of Mexican Springs Chapter (Chapter) for the 32-month period ending May 31, 2011. 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 were Deficient

Internal controls need to be sufficient and effective to ensure proper accountability of resources and activities. However, the Chapter's internal controls were deficient in several areas:

- Budgets were not presented to Chapter membership for approval
- Poor budget monitoring resulted in budget deficits
- Budget was not accurately posted in the accounting system
- \$10,260 intended to purchase wood/coal for low income families was used to pay Chapter bills
- Chapter travel expenditures lack proper documentation
- The Chapter could not support stipend payments to the committee members and grazing official
- Undeposited Chapter revenue of approximately \$3,800
- Poor inventory controls over hay resale activities
- Bank reconciliations were not completed
- On-line banking policies and procedures need strengthening
- The Chapter Officials and former Community Services Coordinator (CSC) signed their own checks
- Chapter property and equipment is not safeguarded from loss or misuse
- Incomplete personnel files
- The Chapter cannot justify wages paid to temporary employees

FINDING II: Chapter Did Not Consistently Comply with Applicable Laws and Funding Guidelines

Compliance with funding guidelines, laws and regulations is imperative not only for accountability purposes, but to ensure resources are used properly and the costs of services are justified. For the Chapter, we noted several non-compliance issues:

- Non-compliance with the Navajo Nation Procurement Code and regulations
- Non-compliance with Housing Discretionary policies and procedures
- Non-compliance with PEP policies and procedures
- Scholarship was not awarded fairly and equitably
- Use of Emergency Fund cannot be justified
- Restricted funds were reallocated to cover fund deficits

- IRS reports and payments were not remitted in a timely manner
- SUTA reports and payments were not remitted
- Sales taxes were not reported and payments were not remitted
- Monitoring by Chapter Officials was insufficient
- Contrary to LGA, the Chapter has not fully implemented a five management system

FINDING III: \$168,000 Unauthorized Payments to Chapter Officials and Former Employees

The Chapter Officials and former employees disregarded the restrictions placed on Chapter funds and colluded to circumvent internal controls that allowed them to receive unauthorized compensation.

- Approximately \$60,000 unauthorized compensation to the former Chapter President and current Vice-President and Secretary/Treasurer
- Approximately \$100,000 unauthorized payments to the former CSC and Office Specialist
- Approximately \$8,400 unauthorized payments to a former Chapter PEP worker

In addition to the findings summarized above, the audit report contains recommendations for improving internal controls and compliance.