

SUMMARY

The Office of the Auditor General conducted a compliance audit of St. Michaels Chapter (Chapter) for the 12-month period ending September 30, 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:

- Poor budget monitoring resulted in budget deficits
- Inaccurate budget amount was presented to the Chapter membership for adoption
- Inaccurate cash balances were reported in the financial statement
- Bank reconciliations were not completed
- Poor inventory controls over its resale activities
- Poor rental controls over equipment and facility rentals
- Approximately \$7,046 was paid annually for Navajo Area Agency on Aging utilities without a Memorandum of Agreement

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. We noted several non-compliance issues:

- Non-compliance with Housing Discretionary Policies and Procedures
- Untimely reporting and remittance of Navajo Nation sales taxes
- Chapter Officials need to exercise better monitoring of the Chapter operations
- Poor working relationship between the Chapter Officials and staff led to deficiencies in the Chapter operations
- Contrary to Local Governance Act (LGA), the Chapter has not fully implemented a five management system

FINDING III: The Chapter was Directly Involved in the Operation of the Chapter Owned Corporation

The St. Michaels Chapter Development Corporation (SMC), a Chapter owned for profit corporation, was established to operate independently of the Chapter to engage in activities that will generate revenue. However, we found the Chapter was directly involved in the operation of the SMC. Contrary to LGA, the former Chapter President executed two professional service contracts on behalf of SMC. In addition, the Chapter did not comply with the Navajo Nation Procurement Code in disbursing \$70,384 to a SMC contractor. Furthermore, the Chapter did not report the financial activities of the SMC to the Chapter membership

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