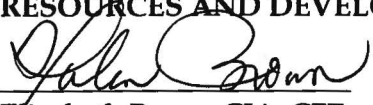


M-E-M-O-R-A-N-D-U-M

Audit Report No. 16-01

TO : Chairperson and Members
RESOURCES AND DEVELOPMENT COMMITTEE

FROM : 
Elizabeth Begay, CIA, CFE
Auditor General
OFFICE OF THE AUDITOR GENERAL

DATE : October 22, 2015

SUBJECT : Recommending governance certification of the Fort Defiance Chapter
within the meaning of 26 N.N.C. Section 102

Scope, Objectives and Methodology:

The Office of the Auditor General, in conjunction with REDW LLC, Certified Public Accountants have reviewed the Fort Defiance Chapter's Five Management System for the three month period ending July 31, 2015. The purpose of the review was to determine whether Fort Defiance 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 Fort Defiance 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 Fort Defiance 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 Fort Defiance 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:

Fort Defiance 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 purpose of the Chapter's current operations.

Conclusion:

Fort Defiance 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 Fort Defiance Chapter for governance certification within the meaning of 26 N.N.C. §102.

Limitations of a Five Management System:

Although we conclude that Fort Defiance 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.

Memo to Resources and Development Committee

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Maintaining an adequate five management system designed to fulfill control objectives is the responsibility of Fort Defiance 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.

This report is intended solely for the information and use by the Resources and Development Committee of the Navajo Nation Council, Fort Defiance Chapter and others within the Navajo Nation Government for the purpose of governance certification under the Local Governance Act. This report is not intended to be and should not be used by anyone other than these specified parties.

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