

OFFICE OF THE AUDITOR GENERAL

The Navajo Nation

**A Special Review
of the
Ramah Navajo Utility Authority
Cash Receipts Activities**

**Report No. 16-02
November 2015**

**Performed by:
Helen Brown, Principal Auditor**



November 25, 2015

Roy Martinez, President
Board of Commissioners
RAMAH NAVAJO UTILITY AUTHORITY
HCR 61 Box 13
Ramah, NM 87321

Dear Mr. Martinez:

The Office of the Auditor General herewith transmits Audit Report No. 16-02, A Special Review of the Ramah Navajo Utility Authority Cash Receipts Activities. The audit was conducted with the following objectives:

- Determine whether all cash receipts for water/wastewater services were fully deposited with the bank.
- Determine whether payments for water/wastewater services were properly posted to water user accounts.

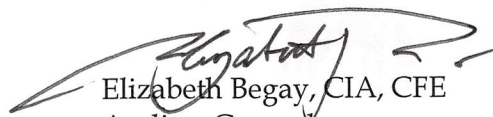
Review Results

FINDING: \$21,000 of \$300,000 cash receipts were not deposited and went missing.

The report provides recommendations to correct the reported deficiencies and improve business operations. The Ramah Navajo Utility Authority has agreed to resolve issues that contributed to the financial loss.

If you have any questions about this report, please contact our office at (928) 871-6303.

Sincerely,


Elizabeth Begay, CIA, CFE
Auditor General

Attachment

xc: David Jose, President
Cecil F. Eriacho, Vice-President
Nancy Martine-Alonzo, Secretary/Treasurer
Norman M. Begay, Council Delegate
C. Samantha Whitetail-Eagle, Executive Director/Office of Grants and Contracts
RAMAH NAVAJO CHAPTER
Chrono

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INTRODUCTION AND BACKGROUND

Pursuant to 12 N.N.C. Section 2(A), the Office of the Auditor General has conducted a special review of the Ramah Navajo Utility Authority (Ramah Utility) cash receipts activities. The Executive Director of the Ramah Navajo Chapter Office of Grants and Contracts requested this review due to concerns about undeposited cash receipts and allegations that former Ramah Utility staff member(s) mismanaged the cash receipts.

Authority and Responsibility

Ramah Utility was established within the Ramah Navajo Chapter by Title 21 of the Navajo Nation Code. The purpose of Ramah Utility is to provide, maintain, and establish utility services on a cost-effective basis to the residents of the Ramah Navajo community. A board of commissioners has authority and responsibility for Ramah Utility's management and operation.

Billing and Collection

Ramah Utility has approximately 400 residential and commercial water user accounts within the Ramah Navajo community. These water users pay for water and wastewater usage during specified billing periods. The Ramah Utility staff uses utility software for the billing and collections. Meter readings are entered into the system to determine the monthly billing, and the staff collects payments. Once payments are posted to the user accounts, receipts are remitted to the Ramah Navajo Chapter business office for bank deposit.

Water Revenues

For the 22-month period ending December 2013, Ramah Utility water revenues totaled \$324,303. Table 1 shows the revenues by month:

Table 1
Monthly Water Revenues for 22-Month Period (March 2012 - December 2013)

Month	2012	2013	Total
January		\$ 14,282	\$ 14,282
February		14,121	14,121
March	\$ 14,354	12,885	27,239
April	13,285	14,624	27,909
May	15,032	11,691	26,723
June	13,918	10,619	24,537
July	14,797	23,389	38,186
August	16,177	15,552	31,729
September	13,289	16,304	29,593
October	13,831	16,684	30,515
November	15,043	16,113	31,156
December	14,047	14,266	28,313
TOTAL:	\$ 143,773	\$ 180,530	\$ 324,303

Source: Billing/Collection System Data - Daily Deposit Reports

Staff and Operations

A general manager directs and manages Ramah Utility. Two water operators are responsible for monthly meter readings, water treatment, water sampling, and other water/wastewater services. The administrative support staff includes both permanent and temporary employees to assist with general office duties, recordkeeping, financial management and the billing/collection for water services.

In March 2012, Ramah Utility hired a full-time accounting clerk. Accordingly, the Ramah Navajo Chapter business office turned over direct management of the billing and collection activities to Ramah Utility. However, in May 2013, the accounting clerk resigned amid allegations of missing cash receipts. Since May 2013, the business office has resumed management of the billing and collection activities.

Objectives, Scope, and Methodology

The objectives of this special review include:

- Determine whether all cash receipts for water/wastewater services were fully deposited with the bank.
- Determine whether payments for water/wastewater services were properly posted to water user accounts.

The scope for this special review was the 22-month period of March 01, 2012 through December 31, 2013.

In meeting our objectives, we performed the following procedures:

- Documented the Ramah Utility cash receipts process and evaluated controls within the process.
- Compiled deposits from bank statements and cash receipt tickets for water collections.
- Analyzed deposits, receipts and billing/collection system reports using ACL (data analytic tool).
- Interviewed Ramah Navajo Chapter business office and Ramah Utility staff.
- Verified the posting of cash receipts for a sample period of 7 months (October 2012 to April 2013).
- Randomly selected a sample of 210 water accounts to verify the posting of payments to these accounts.

Government Auditing Standards

This audit was conducted in accordance with government auditing standards. Those standards require that we plan and perform the audit to afford a reasonable basis for our judgments and conclusions regarding the program under audit. An audit also includes assessments of applicable internal controls and compliance with requirements of laws and regulations when necessary to satisfy the audit objectives. We believe that our audit provides a reasonable basis for our conclusions.

REVIEW RESULTS

FINDING: \$21,000 of \$300,000 cash receipts were not deposited and went missing.

As noted in Table 1 of this report, Ramah Utility generated over \$300,000 in water revenues over a 22-month period. Although water payments were posted to the water user accounts, a comparison of the cash receipt tickets to bank deposits revealed that not all receipts collected from the payments were deposited. A majority of the undeposited cash receipts occurred consistently during a 7-month period. Between October 2012 and April 2013, 15% to 29% of the monthly cash receipts had not been deposited as shown in Table 2.

Table 2
Comparison of Deposits and Cash Receipt Tickets
7-month Period (October 2012 to April 2013)

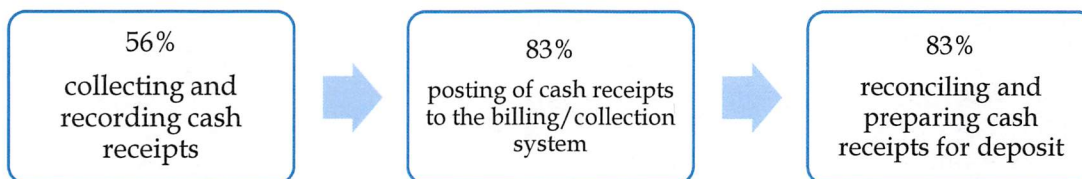
Year	Month	Bank Deposits - Amount	Cash Receipts - Amount	(Undeposited)/ Unrecorded	% of Cash Receipts
2012	October	\$ 11,611	\$ 14,050	\$ (2,439)	17%
	November	12,247	15,241	(2,994)	20%
	December	10,176	13,703	(3,527)	26%
2013	January	10,781	14,447	(3,666)	25%
	February	11,878	14,925	(3,047)	20%
	March	9,104	12,887	(3,783)	29%
	April	11,878	13,913	(2,035)	15%
TOTAL:		\$ 77,675	\$ 99,166	\$ (21,491)	22%

Source: Bank statements and cash receipt tickets

The following controls over cash collection, recording, depositing, and posting were not operating effectively:

- Duties of the former accounting clerk were not properly segregated.** To prevent theft or misuse of assets, duties related to collecting, recording, depositing, and posting of cash receipts should be separated among different individuals. This deters any one person from stealing undeposited cash and/or altering records to disguise the theft.

Several individuals including permanent and temporary employees (i.e., student workers) were involved with collecting and recording cash receipts but most of the time, the former accounting clerk was involved. The illustration below shows key steps within the cash receipts process and the percentage of time these steps were performed solely by the former accounting clerk during her employment:



Because her duties of collecting, recording, posting, reconciling and preparing cash receipts for deposit were not segregated, the former accounting clerk performed every step within the cash receipt process without any review or oversight by an independent person. As such, she had opportunities to commit fraud without detection.

- **Reconciliations performed by the business office were insufficient.** Reconciliation is a key internal control that helps detect any unaccounted cash receipts. Generally, cash receipts should be reconciled to source records such as the pre-numbered cash receipt tickets. Reconciliation ensures that no cash is removed from bank deposits.

Although the business office staff reconciled cash receipts to both bank deposit slips and posted cash receipts reports, this reconciliation was insufficient because the former accounting clerk prepared these records to purposely match on a consistent basis. Since the cash receipts were not reconciled to the pre-numbered cash receipt tickets, the business office was unaware that not all cash receipts were posted initially and it was the cash tied to these unposted receipts that were never deposited. After bank deposits were made, receipts that were not posted initially were subsequently posted to the system to offset billed amounts and to make sure water user accounts did not become delinquent. This practice continued without any detection for approximately seven straight months and resulted in the loss of \$21,000.

- **Ramah Utility does not have written cash receipt policies and procedures.** Policies and procedures serve as a link between the company purpose and its day-to-day operations, they provide structure by identifying the business protocol, and they define the roles and responsibilities for employees. Overall, policies and procedures are important for ensuring the overall health of a business.

However, Ramah Utility at the time of the transfer of billing/collection activities did not, and to date still does not, have written cash receipt policies and procedures. While the business office has cash receipt policies and procedures, they were established in 2000 and are not applicable to utility operations.

For Ramah Utility, the absence of policies and procedures meant that staff had no guidance in handling the cash receipts and this increased the risk for receipts to be stolen or misused which occurred with the \$21,000 missing cash receipts.

- **Ramah Utility general manager did not monitor the cash receipt activities.** Monitoring helps to ensure that staff is performing their assigned duties appropriately and that assets are safeguarded from loss. To be effective, monitoring needs to be consistent and can be achieved by observing performance and reviewing documents.

The general manager did not routinely monitor the former accounting clerk's activities although her duties were not properly segregated. He helped collect receipts when needed, but there was no evidence that he monitored the cash receipt activities. The general manager was unable to see that the former accounting clerk was performing incompatible duties, which increased the risk for fraud. The general manager indicated that he was not

trained how to monitor such activities, and since they were financially-related, he relied on the business office to do the monitoring.

- **Business office did not conduct surprise cash counts.** A good business practice to ensure all cash receipts are being accounted for at any given time is to conduct surprise cash counts of the cash box or drawer. Despite their concerns about the capability of the limited staff in handling the cash receipt activities, the business office did not perform unannounced cash counts of the Ramah Utility cash receipts. The unannounced cash counts would have revealed that not all cash, checks, money orders collected as receipts by the Ramah Utility staff were matching what was on hand at any given time. This resulted in missing cash receipts.
- **No change in locks or access codes to safeguard cash receipts.** To deter theft or fraud, all cash should be safeguarded in a safe or locked cabinet. Access to the safe or locked cabinet should be restricted to authorized individuals, and the access codes should be periodically changed. Ramah Utility had no policy on how to safeguard the cash receipts such as periodically changing the access code to the safe to prevent any unauthorized access to the cash receipts or limiting access to the office. Therefore, the same individuals who had access to the daily cash drawer also had access to the office where the safe is located, and to the safe which stores the cash drawer. This made it difficult to identify the individuals who may have mishandled or stole the cash receipts.
- **Checks and money orders are not being restrictively endorsed immediately upon receipt.** Restrictively endorsing checks and money orders prevents identify theft and unauthorized persons from cashing them for their own personal use. According to the business office, checks and money orders are deposited electronically from their remote location, and the funds are posted to the bank account in real-time. Since the checks and money orders do not need to be remitted, neither the Ramah Utility staff nor business office endorses them with a restrictive stamp upon receipt. Rather, the business office files the checks and money orders with the deposit slips without defacing these financial instruments. This was evident by the checks and money orders found on file with the deposit slips.
- **Access to the billing system is not protected.** The former accounting clerk shared her assigned username and password for the billing/collection system with other staff enabling them to log into the system to post cash receipts and generate reports for deposit purposes. Because she had full administrative rights allowing her to make changes to the system's data, others with whom she shared access also had these same rights.

Sharing usernames and passwords allows for employees to conceal fraudulent activities by manipulating and/or compromising system data. This presents a risk for identify theft considering the system data includes customer account information such as addresses, telephone numbers and social security numbers. The sharing of access information also made it difficult to distinguish which staff performed the system functions.

- **Software system features were not fully utilized.** To ensure proper accountability of billing and collection activities, the software acquired by Ramah Utility offered a variety of features including the direct printing of receipts to customers. Rather than using this

feature, the staff performed this task manually using pre-numbered cash receipt ticket books, which added costs and the tedious task of preparing handwritten receipts.

Although receipts were recorded on pre-numbered tickets, the ticket numbers were not posted to the system. As a result, the Auditor General could not readily trace posted entries to the receipt books. The printing of receipts directly from the system would have ensured immediate posting of the payments to the water accounts, facilitating a proper audit trail of the transactions. The software is also capable of generating a variety of reports for monitoring purposes but the general manager did not generate these reports on a regular basis. A review and reconciliation of such reports would have facilitated timely detection of questionable activities.

- **Staff does not know how to use the billing software.** As part of its corrective action plan to address prior audit findings, Ramah Utility purchased billing and collection software tailored for water utility companies. Ramah Utility also purchased accounting software that was intended to integrate with the billing/collection software. However, due to technical issues, the integration was unsuccessful. Therefore, Ramah Utility used only the billing/collection software on a regular basis.

To ensure the software is used as intended, users require proper training and supervision while utilizing the software. However, neither the Ramah Utility staff nor the business office received formal or extensive training on the billing/collection software. Rather, the two individuals who were familiar with the software self-taught themselves and learned by trial and error. Other staff, such as the general manager, lacked proficiency of the software and could not supervise staff to make sure the software was used as intended. Therefore, neither the system nor its users were monitored and as a result, questionable activities or system inefficiencies were not detected in a timely manner.

Recommendations:

1. Ramah Utility should properly define the duties and responsibilities of its employees to ensure proper segregation of duties. If staff is limited, as compensating controls, additional management review and supervision should be implemented.
2. Ramah Utility general manager and the business office should reconcile the cash receipts to the cash receipt tickets to make sure no cash is taken before deposit.
3. Ramah Utility should develop appropriate policies and procedures to govern daily operations including the cash receipt activities.
4. Ramah Utility general manager should receive appropriate training on how to effectively monitor cash receipt activities.
5. The business office should perform surprise cash counts of the Ramah Utility cash receipts to ensure all cash is accountable at deposit.
6. Ramah Utility policies and procedures should include access controls to safeguard cash assets.
7. Ramah Utility should restrictively endorse all checks and money orders upon receipt.
8. Ramah Utility should establish appropriate access rights for users of the billing/collection system. To ensure system data integrity and safeguards, the general manager should document, and periodically verify such rights.

9. Ramah Utility general manager should ensure all system features are used.
10. Ramah Utility general manager and staff should obtain proper training on the billing/collection software to facilitate checks and balances for the system.

CONCLUSION

Within a 22-month period, Ramah Utility generated \$324,303 in revenues from water and wastewater services. Cash receipts for seven months were verified and during this period, \$21,491 cash receipts were not deposited. The loss occurred because controls over cash collection, recording, depositing and posting were not operating effectively. The following control deficiencies were noted:

- Duties of the former accounting clerk were not properly segregated
- Reconciliations performed by the business office were insufficient
- Ramah Utility does not have written cash receipt policies and procedures
- Ramah Utility general manager did not monitor the cash receipt activities
- Business office did not conduct surprise cash counts
- No change in locks or access codes to safeguard cash receipts
- Checks and money orders are not being restrictively endorsed immediately upon receipt
- Access to billing system is not protected
- Software system features were not fully utilized
- Staff does not know how to use the billing software

A former accounting clerk was the primary person who collected, recorded, posted, reconciled and prepared the receipts for deposit. By performing every step, numerous opportunities were present for receipts to be stolen or misused, and to conceal such acts by manipulating records or system data.

Although cash receipts are missing, the former accounting clerk made sure these missing receipts did not affect the water user accounts. As such, it was unbeknownst to water users that the cash receipts for some of their payments were not being deposited.

CLIENT RESPONSE

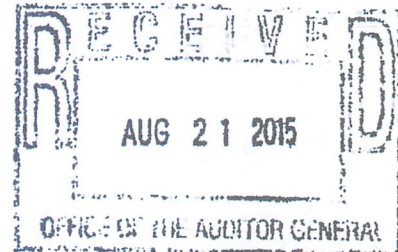


Ramah Navajo Utility Authority
P.O. Box 207
Pine Hill, New Mexico 87357
(505) 775-7160 or (505) 775-7262
Fax No. (505) 775-7003



August 13, 2015

Mrs. Elizabeth Begay, Auditor General
Office of the Auditor General
The Navajo Nation
P.O. Box 708
Window Rock, AZ. 86515



Dear Ms. Begay;

This letter is in response to the drafted report of the Special Review of the Ramah Navajo Utility Authority (RNUA) cash receipt activities. We, the RNUA and Ramah Navajo Chapter received the verbal report presented by Ms. Helen Brown, Principal Auditor on July 24, 2015. We acknowledge and agree with the report/findings as presented to RNUA and the Chapter.

Once we receive a final report of the Special Review, we will begin developing a Corrective Action Plan to address all the findings. It is our desire to address these findings so that RNUA can move forward with its plans.

We appreciate your assistance and working with us in resolving the issues at hand. Any questions, please feel free to contact Ms. Samantha Whitetail Eagle, Executive Director at 505-775-7105 or Mr. Elmer Yazzie, General Manager at 505-495-0057.

Sincerely;

Roy Chap Martinez, President
Board of Commissioners
Ramah Navajo Utility Authority

xc: David Jose, Chapter President
Cecil F. Eriacho, Vice President
Nancy Martin-Alonzo, Secretary/Treasurer
Cecelia S. Whitetail Eagle, Executive Director
Elmer Yazzie, General Manager, RNUA
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