

OFFICE OF THE AUDITOR GENERAL

The Navajo Nation

Special Review of the Whitecone Chapter's Cash Receipts Activities

**Report No. 16-28
September 2016**

Performed by:
Robert D Jumbo, Senior Auditor
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Auditor**





September 6, 2016

Jonathan Lewis, President
WHITECONE CHAPTER
P.O. Box 3338
Indian Wells, AZ 86031

Dear Mr. Lewis,

The Office of the Auditor General herewith transmits audit report no. 16-28, a Special Review of the Whitecone Chapter's Cash Receipts Activities. The Office of the Auditor General conducted the special review with the following four objectives: 1) determine whether all cash receipts were deposited intact, 2) determine whether all collected cash receipts were accurately posted in the accounting system, 3) determine whether segregation of duties and reviews existed within the cash receipts process, and 4) determine whether physical safeguards were adequate to prevent any theft or missing money.

At each stage of the cash receipts process, a significant control was not functioning resulting in missing funds over a two year period between October 1, 2011 and September 30, 2013. When cash was received, we suspect, but cannot prove, that some cash was pocketed before it made it into the cash register.


Once the cash was recorded in the cash register, we found that \$16,979 did not make it to the bank. The undeposited cash went undetected in part because the bank statement deposits were not reconciled to the cash receipts deposit log.

A large amount of cash was stored in the safe most nights and was not deposited for as long as 8 days. The former Community Services Coordinator, Accounts Maintenance Specialist, and Office Aide had access to the safe. Cash receipts were not recorded daily in the accounting system. There were seven occurrences when daily cash receipts were recorded over 50 days after receipt. Cash received and deposited was not recorded accurately in the accounting system.

Accountability for errors or manipulation of data in the accounting system cannot be fixed on any one employee because the former Community Services Coordinator and Office Aide shared access passwords. In addition, the former Community Services Coordinator was involved in each stage of the cash receipts process and had control over the collecting, recording, and depositing of cash receipts.

More details on all of these issues can be found in the body of the report.

Sincerely,



Elizabeth Begay, CIA, CFE
Auditor General

xc: Henry Attakai, Vice-President
Francis Lester, Secretary/Treasurer
VACANT, Community Service Coordinator
Lee Jack Sr., Council Delegate
WHITECONE CHAPTER
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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 Whitecone Chapter's cash receipts activities. The Chapter Secretary/Treasurer requested this review due to concerns about undeposited cash receipts and allegations that a former staff member mismanaged the cash receipts.

The Chapter generates internal revenues in addition to the annual allocations received from the Navajo Nation. The majority of internal revenue was generated through hay resale. Other internal revenue includes water, fax/copy, heavy equipment rental, facility rental, and trash disposal. For the 24-month review period, Whitecone Chapter generated the following monthly internal revenues totaling \$300,103 as shown in Table 1.

Table 1
Monthly Revenues for 24-Month Period (October 2011 - September 2013)

Month	2012	2013	Total
October	\$ 15,310	\$ 10,248	\$ 25,558
November	19,867	11,696	31,563
December	24,946	12,902	37,848
January	17,612	12,722	30,334
February	18,709	10,448	29,157
March	18,598	13,248	31,846
April	13,021	14,763	27,784
May	11,845	11,469	23,314
June	9,528	8,147	17,675
July	13,339	7,662	21,001
August	8,044	5,846	13,890
September	6,926	3,207	10,133
TOTAL:	\$ 177,745	\$ 122,358	\$ 300,103

Source: Daily Cash Register Tape

Objectives, Scope, and Methodology

The objectives of this special review include:

- Determine whether all cash receipts were deposited intact.
- Determine whether all collected cash receipts were accurately posted in the accounting system.
- Determine whether segregation of duties and reviews existed within the cash receipts process.
- Determine whether physical safeguards were adequate to prevent any theft or missing money.

The scope for this special review was the 24-month period of October 1, 2011 through September 30, 2013.

In meeting our objectives, we performed the following procedures:

- Verified the posting of cash receipts in the accounting system.
- Analyzed the posting of cash receipts in the accounting system.
- Compiled deposits from bank statements and cash register tapes.
- Documented the Whitecone Chapter's cash receipts process and evaluated controls within the process.
- Analyzed the accounting system log to see who accessed the accounting software.

Government Auditing Standards

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

REVIEW RESULTS

Finding I: \$16,979 of \$300,103 cash receipts were not deposited and went missing.

As noted in Table 1 of this report, the Whitecone Chapter generated \$300,103 in internal revenues over a 24-month period. A comparison of the cash receipts to bank deposits revealed that not all receipts collected for chapter services were deposited. There were discrepancies of undeposited cash receipts during the 24-month review period as shown in Table 2.

Table 2
Comparison of Deposits and Cash Register Tapes
24-month Period (October 2011 to September 2013)

Fiscal Year	Month	Bank Deposits - Amount	Cash Register Receipts - Amount	Undeposited
2012	October	\$ 14,784	\$ 15,310	\$ (526)
	November	17,046	19,867	(2,821)
	December	22,331	24,946	(2,615)
	January	15,577	17,612	(2,035)
	February	20,850	18,709	2,141
	March	18,334	18,598	(264)
	April	10,769	13,021	(2,252)
	May	12,511	11,845	666
	June	9,739	9,528	211
	July	13,784	13,339	445
	August	4,722	8,044	(3,322)
	September	8,231	6,926	1,305
2013	October	8,621	10,248	(1,627)
	November	10,113	11,696	(1,583)
	December	10,653	12,902	(2,249)
	January	10,379	12,722	(2,343)
	February	7,786	10,448	(2,662)
	March	13,945	13,248	697
	April	14,546	14,763	(217)
	May	10,396	11,469	(1,073)
	June	6,105	8,147	(2,042)
	July	10,168	7,662	2,506
	August	8,934	5,846	3,088
	September	2,800	3,207	(407)
TOTAL:		\$ 283,124	\$ 300,103	(16,979)

Source: Bank statements and cash register tapes

The cash was missing and its loss was undetected because the following controls over the deposit of cash were not operating effectively:

- **Cash reconciliations of the cash received to the cash register receipts and to the posted cash receipts were not performed prior to deposit.** Section VII.A.2.f, Reconciling Cash Receipts, of the Fiscal policies and procedures requires the Community Services Coordinator to reconcile the cash to be deposited to the cash register and cash receipts journal. During the period of our review when cash was received, we suspect, but cannot prove, that some cash was pocketed before it made it into the cash register. Once the cash was recorded in the cash register, we found cash receipts not posted in the accounting system. The unposted cash receipts were not deposited into the Chapter's bank account.
- **The deposit log was incomplete in recording all deposits to the bank.** Section VII.A.2.j, Reconciling Cash Deposits, of the Fiscal policies and procedures requires the Community Services Coordinator to reconcile the cash receipts records to deposits on a monthly basis. The Chapter administration maintained an internal deposit log to document the release of collected receipts to the depositor. The primary documenter of receipts was the former Community Services Coordinator. A comparison of the deposit log against bank deposits shows the log did not record all deposits to the bank. The undeposited cash went undetected in part because the bank statement deposits were not reconciled to the cash receipts deposit log.

To correct this issue, we recommend the following:

1. The Chapter administration should reconcile cash received to the cash register receipts and to the posted cash receipts.
2. The Chapter administration should record all deposits on the cash receipts deposit log.
3. The Chapter administration should reconcile the deposit log to the bank deposits.

Finding II: \$17,591.84 in cash receipts collected through the cash register were not recorded in the accounting system.

Section VII.A.2.c, Recording Cash Receipts, of the Fiscal policies and procedures requires the Chapter administration to record all cash received in the accounting system. A comparison of the cash register tapes and the accounting system's recorded cash receipts found that \$17,591.84 of cash receipts were not recorded in the accounting system. The former Community Services Coordinator was not recording cash receipts in the accounting system on a consistent basis. The unrecorded cash receipts may be missing and may have been concealed by not recording all receipts in the accounting system.

The cash was missing and the loss was undetected because the following controls over recording cash receipts were not operating effectively:

- **Collected cash receipts were not recorded daily in the accounting system.** Section VII.A.2.a, Recording Cash Receipts, of the Fiscal policies and procedures requires the Chapter administration to record all cash receipts in the accounting system on a daily basis. A review of the accounting system found a significant amount of cash receipts were not

recorded daily by the former Community Services Coordinator. The following table shows the number of occurrences and amount of daily receipts that were not timely posted in the accounting system.

<u>Range of Days</u>	<u>No. of Occurrences</u>	<u>\$ Amount</u>
2 to 10	140	\$ 73,641.10
11 to 20	125	79,081.16
21 to 30	98	63,702.12
31 to 40	67	44,456.74
41 to 50	30	15,845.60
Over 50	7	3,360.66

The table shows seven occurrences of cash receipts amounting to \$3,360.66 were recorded by the former Community Services Coordinator over 50 days after receipt.

- **An adjustment recorded in the accounting system decreasing cash receipts in the amount of \$6,138.15 did not follow established policies and procedures.** Section VII.A.2.j through m, Cash Receipts Adjustments, of the Fiscal policies and procedures requires the Community Services Coordinator to complete a reconciliation of the collected receipts against bank deposits. The Community Services Coordinator is required to inform the Chapter officials of any discrepancies during a planning meeting, make adjustments, if deemed necessary, to the accounting records while maintaining support documentation for the basis of the adjustment.

The former Community Services Coordinator did not notify the Chapter officials of the discrepancy. Rather, the former Community Services Coordinator verbally informed the Secretary/Treasurer of the adjustment decreasing water (\$1,296.03) and hay (\$4,842.12) revenues. No supporting documentation was found to justify this adjustment to the cash receipts. This adjustment may have been made to conceal missing cash receipts that were not deposited into the chapter's bank account.

- **Former Community Services Coordinator shared user credentials with the Office Aide to record transactions in the accounting system.** The Chapter uses a fund accounting software that requires user credentials for each authorized user and prohibits the sharing of those credentials. The former Community Services Coordinator shared her credentials with the Office Aide. The Office Aide then recorded receipts into the accounting software using the former Community Services Coordinator's credentials. However, the Office Aide could not remember what days she accessed the accounting system. As a result, accountability for errors or manipulation of data in the accounting system cannot be fixed on any one employee.

To correct this issue, we recommend the following:

1. The Chapter administration should review on a weekly basis, accounting system reports and the daily reconciliation sheets to ensure all receipts are recorded.
2. The Chapter administration should verify all cash receipts are recorded in the accounting system on a daily basis.

3. The Chapter administration should maintain supporting documentation of any adjustments recorded in the accounting system.
4. The Chapter administration should request that the system administrator create a new user profile for each individual user in the accounting system.

Finding III: Former Community Services Coordinator had total control of the cash receipts process.

Section VII.A.1.e, Segregation of Duties, of the Fiscal policies and procedures requires the handling of all cash receipts be segregated to ensure no one employee is in a position to collect, deposit, safeguard and reconcile all cash receipts. The former Community Services Coordinator was involved in all areas of the cash receipts processes. Although the Chapter hired a temporary Office Aide to assist with Chapter operations, the former Community Services Coordinator limited the duties of this individual. This total control provided the former Community Services Coordinator opportunities to misappropriate assets as well as conceal any improprieties.

To correct this issue, we recommend the following:

1. The Chapter administration should implement and maintain segregation of duties for the cash receipts processes.

Finding IV: Large amounts of undeposited cash receipts (up to \$7,454 during the period of our review) were maintained in the chapter safe for as long as 8 days.

Section VII.A.2.h, Timely Deposits, of the Fiscal policies and procedures requires the Community Services Coordinator to deposit all collected receipts weekly. The Chapter staff kept large amounts of cash in the chapter safe totaling up to \$7,454 for as long as eight days. The individuals with access to the safe were the former Community Services Coordinator, former Office Aide, and Accounts Maintenance Specialist. The former Community Services Coordinator was the primary custodian of the safe keys. The high volume of cash receipts generated on a daily basis that were not immediately deposited but rather kept on hand for as long as eight days contributed to the undeposited monies being misappropriated and such acts were concealed by modifying the accounting records.

To correct this issue, we recommend the following:

1. The Chapter administration, in collaboration with the Chapter officials, should establish a threshold amount for collected revenues to be deposited at the bank.

CONCLUSION

Within a 24-month period, the Whitecone Chapter generated \$300,103 in internal revenues generated from various chapter services. Cash receipts for 24 months were verified and during this period \$16,979, or 6%, cash receipts were not deposited intact. All cash receipts were not accurately posted in the accounting system.

Critical duties were not segregated, such as the former Community Services Coordinator was the primary person who recorded, posted, and deposited cash receipts. By performing these steps without any review or supervision, numerous opportunities were present for receipts to be stolen or misused, and to conceal such acts by manipulating records or system data. Cash was not physically safeguarded as large amounts of cash remained undeposited in the chapter house for up to 8 days and several employees had access to the safe where monies were stored.

CLIENT RESPONSE



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July 28, 2016

Navajo Nation
Office of the Auditor General
Elizabeth Begay, CIA, CFE
Acting Auditor General

Dear Mrs. Begay:

We are in receipt of your final draft of the Compliance Audit Findings of the White Cone Chapter dated July 18, 2016. Pursuant to Title N.N.C S7A, we agree to the audit findings and will begin the process of the Corrective Action Plan based on the recommendations made by your office within thirty (30) days.

If you should have any questions, please feel free to contact the White Cone Chapter at (928) 654-3928 or by fax at (928)-654-3322. Thank you.

Sincerely,

A handwritten signature in black ink, appearing to read "Leona R. Bia".

Leona R. Bia
Account Maintenance Specialist
White Cone Chapter

A handwritten signature in black ink, appearing to read "Francis Lester".

Mr. Francis K. Lester, Secretary/Treasurer
White Cone Chapter

Cc: Robert Begay, Department Manager
White Cone Chapter
Lee Jack, Sr., Council Delegate
White Cone Chapter