

OFFICE OF THE AUDITOR GENERAL

The Navajo Nation

A Special Review of the Tsaile/Wheatfields Chapter's Cash Receipts Activities

**Report No. 17-09
December 2016**

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



December 07, 2016

Zane James, President
TSAILE/WHEATFIELDS CHAPTER
P.O. Box C18
Tsaile, AZ 86556

Dear Mr. James,

The Office of the Auditor General herewith transmits audit report no. 17-09, a Special Review of the Tsaile/Wheatfields Chapter's Cash Receipts Activities. The Office of the Auditor General conducted the special review with the following two objectives: 1) determine whether all cash receipts were deposited intact, and 2) determine whether reviews and segregation of duties existed within the cash receipts process.

Review Results

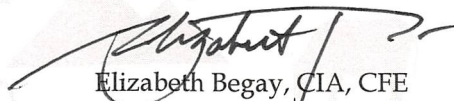
At each stage of the cash receipts process, a significant control was not functioning resulting in missing funds over a 66-month period between October 1, 2010 and March 31, 2016. When cash was received, we suspect, but cannot prove, that some cash was skimmed before it made it into the Chapter safe. Once the cash was recorded in the cash receipts ticket book, we found that \$41,837 did not make it to the bank.

Accountability for errors and manipulation of data in the accounting system was not discovered because the former Accounts Maintenance Specialist was the only staff proficient with the accounting system. In addition, the former Accounts Maintenance Specialist was involved in each stage of the cash receipts process and had control over the collecting, recording, and depositing of cash receipts. The Community Services Coordinator did not implement segregation of duties in the cash receipts process.

The undeposited cash went undetected, in part because the bank statement deposits were not reconciled to the posted cash receipts. Cash received and deposited was not recorded accurately in the accounting system. The Community Services Coordinator did not verify the former Accounts Maintenance Specialist's work in posting of cash receipts because the Community Services Coordinator did not know how to review the posted transactions on the Chapter's accounting system.

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

Sincerely,



Elizabeth Begay, CIA, CFE
Auditor General

xc: David Kedelty, Vice-President
Margie R.S. Begay, Secretary/Treasurer
Paula S. Begay, Community Services Coordinator
Nelson S. Begay, Council Delegate
TSAILE/WHEATFIELDS CHAPTER
Robert Begay, Department Manager II
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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 Tsaile/Wheatfields Chapter's cash receipts activities. The Chapter president 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 the sale of hay. Other internal revenue included water service, fax and copy services, heavy equipment rentals, facility rentals, and trash disposal service.

For the 66-month review period, Tsaile/Wheatfields Chapter generated the following monthly internal revenues totaling \$71,322 as shown in Table 1.

Table 1
Monthly Revenues for 66-Month Period (October 1, 2010 - March 31, 2016)

Month	2011	2012	2013	2014	2015	2016	Total
October	\$147	\$2,988	\$298	\$977	\$251	\$412	\$5,073
November	117	203	249	110	243	368	1,290
December	333	5,972	568	363	417	371	8,024
January	3,117	3,982	4,970	292	233	307	12,901
February	1,868	625	2,478	394	322	308	5,995
March	214	363	1,736	369	7,548	397	10,627
April	396	251	1,293	341	393		2,674
May	431	264	891	508	490		2,584
June	3,635	262	974	400	561		5,832
July	2,627	404	3,703	528	603		7,865
August	495	471	988	352	567		2,873
September	4,324	213	273	351	423		5,584
TOTAL:	\$17,704	\$15,998	\$18,421	\$4,985	\$12,051	\$2,163	\$71,322

Source: Tsaile/Wheatfields MIP

Objectives, Scope, and Methodology

The scope for this special review for cash receipts was the 66-month period of October 1, 2010 through March 31, 2016. The objectives of this special review included:

- Determining whether all cash receipts were deposited intact.
- Determining whether reviews and segregation of duties existed within the cash receipts process.

In meeting our objectives, we performed the following procedures:

- Compiled deposits from bank statements and compared it to cash receipts posted in the accounting system.
- Documented the Tsaille/Wheatfields Chapter's cash receipts process and evaluated controls within the process.

Government Auditing Standards

We conducted this special review 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: \$41,837 of \$71,322 cash receipts were not deposited and were missing.

As noted in Table 1 of this report, the Tsaille/Wheatfields Chapter generated \$71,322 in internal revenues over a 66-month period. A comparison of the posted cash receipts to bank deposits revealed that not all receipts collected were deposited. There were discrepancies of undeposited cash receipts during the 66-month review period as shown in Table 2.

Table 2
Comparison of Bank Deposits and Posted Cash Receipts
66-month Period (October 1, 2010 to March 31, 2016)

Fiscal Year	Month	Bank Deposits - Amount	Posted Cash Receipts - Amount	Undeposited
2011	October	0	147	(147)
	November	0	117	(117)
	December	0	333	(333)
	January	0	3,117	(3,117)
	February	0	1,868	(1,868)
	March	1,302	214	1,088
	April	108	396	(288)
	May	0	431	(431)
	June	0	3,635	(3,635)
	July	1,991	2,627	(636)
	August	0	495	(495)
	September	0	4,324	(4,324)
2012	October	0	2,988	(2,988)
	November	0	203	(203)
	December	0	5,972	(5,972)
	January	0	3,982	(3,982)
	February	200	625	(425)
	March	0	363	(363)
	April	0	251	(251)
	May	0	264	(264)
	June	0	262	(262)
	July	0	404	(404)
	August	0	471	(471)
	September	0	213	(213)
2013	October	0	298	(298)
	November	0	249	(249)
	December	153	568	(415)
	January	3,466	4,970	(1,504)
	February	518	2,478	(1,960)
	March	1,731	1,736	(5)
	April	377	1,293	(916)
	May	169	891	(722)

	June	461	974	(513)	
	July	5,426	3,703	1,723	
	August	0	988	(988)	
	September	0	273	(273)	
2014	October	235	977	(742)	
	November	0	110	(110)	
	December	182	363	(181)	
	January	0	292	(292)	
	February	0	394	(394)	
	March	0	369	(369)	
	April	377	341	36	
	May	0	508	(508)	
	June	0	400	(400)	
	July	424	528	(104)	
	August	555	352	203	
	September	160	351	(191)	
	2015	October	0	251	(251)
		November	0	243	(243)
		December	0	417	(417)
January		0	233	(233)	
February		0	322	(322)	
March		7,514	7,548	(34)	
April		0	393	(393)	
May		0	490	(490)	
June		1,067	561	506	
July		0	603	(603)	
August		793	567	226	
September		81	423	(342)	
2016		October	197	412	(215)
	November	359	368	(9)	
	December	0	371	(371)	
	January	590	307	283	
	February	554	308	246	
	March	495	397	98	
Total:		\$29,485	\$71,322	(\$41,837)	

Source: Bank statements and posted cash receipts

Section VII.2.h, Cash Receipt Control Procedures, of the Fiscal Policies and Procedures states the Chapter Manager shall deposit the monies into the Chapter's bank account on a weekly basis or as practical.

The primary documenter of cash receipts and depositor of cash receipts was the former Accounts Maintenance Specialist.

A comparison of the posted cash receipts against bank deposits shows 59% of internally generated revenues were not deposited into the Chapter's bank account.

The undeposited cash receipts were not detected, in part because monthly reconciliations of the cash receipts against the bank statements were not completed by the Community Services Coordinator. The Secretary/Treasurer did not monitor the cash receipts posted to the accounting system.

To correct this issue, we recommend the following:

1. No one individual should be allowed to document and deposit cash receipts.
2. The Community Services Coordinator should reconcile cash received to the Chapter's accounting system posted cash receipts before deposit.
3. The Community Services Coordinator should perform the monthly reconciliations of the bank statement deposits and the cash receipts.
4. The Secretary/Treasurer should periodically monitor the cash receipts posted to the accounting system.

Finding II: Former Accounts Maintenance Specialist 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 Accounts Maintenance Specialist was involved in all areas of the cash receipts process including collecting cash, recording cash received on cash receipt tickets, and depositing cash in the bank. Although the Chapter had a Community Services Coordinator and Office Aide to assist with the collection of cash receipts, the Community Services Coordinator did not implement segregation of duties in the cash receipts process.

This gave the former Accounts Maintenance Specialist opportunities to misappropriate the cash collected as well as conceal any improprieties by manipulating Navajo Nation allocations by understating the sales tax allocation and posting them as internally generated revenues that were not deposited into the Chapter's bank account. During the monthly reconciliation of the checking account, the former Accounts Maintenance Specialist would record deposits in transit although there were no actual deposits in transit. In other occasion, the former Accounts Maintenance Specialist would record inaccurate bank statement ending balance to force the reconciliation with the accounting system book balance.

The Community Services Coordinator claimed that the Chapter was dealing with numerous projects and trusted the former Accounts Maintenance Specialist with the cash receipts process. The Community Service Coordinator acknowledged that she did not verify the former Accounts Maintenance Specialist's work because the Community Services Coordinator did not know how to review the posted transactions on the Chapter's accounting system.

Although LGA prohibits the elected Chapter Officials from direct involvement in the management and operation of the Chapter, the law requires the Chapter Officials to ensure the staff is adequately meeting the Chapter's directives and accounting for all chapter funds according to established conditions. Specifically, the Secretary/Treasurer is required to monitor the maintenance of an adequate accounting system to ensure accountability of all funds. The Chapter Officials did not monitor segregation of duties exist for the cash receipts process.

The Administrative Services Centers under the Division of Community Development was established to provide guidance to chapters in the implementation of their five management system policies and procedures. The Administrative Service Centers' accountant did not monitor chapter operations to provide guidance in the implementation of the Tsaile/Wheatfields Chapter's implementation of their five management system specifically the lack of segregation of duties in the cash receipts process.

To correct this issue, we recommend the following:

1. The Chapter administration and officials should implement and maintain segregation of duties for the cash receipts process.
2. The Secretary/Treasurer should perform periodic reviews of the accounting system.
3. The Chapter should schedule a monthly on-site visit by the Administrative Services Centers' accountant to conduct monitoring of the Chapter's implementation of their five management system.

CONCLUSION

Within a 66-month period, the Tsaile/Wheatfields Chapter generated \$71,322 in internal revenues generated from the sale of hay and providing various Chapter services. Cash receipts for 66 months were verified, and during this period \$41,837, or 59%, of cash receipts were not deposited.

Critical duties were not segregated, such as the former Accounts Maintenance Specialist was the primary person who recorded, posted, and deposited cash receipts. The Community Services Coordinator entrusted the former Accounts Maintenance Specialist to handle the cash receipts process without verifying her work. The former Accounts Maintenance Specialist manipulated accounting data to conceal the improprieties by misstating the Navajo Nation allocations and posting them as internally generated revenues to offset the cash receipts that were not deposited into the Chapter's bank account.

CLIENT RESPONSE



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Tsehile

Todziah

Tsezhini

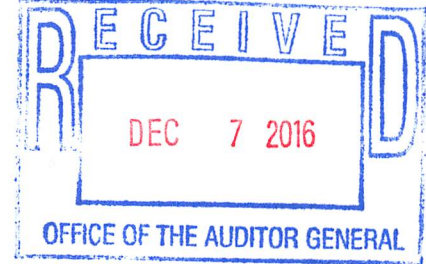
Zane P. James, President
Thomas Litson, Grazing Committee

David Kedefty, Vice President

Margie R.S. Begay, Secretary/Treasurer
Nelson Begaye, Council Delegates

December 6, 2016

Elizabeth Begay, CIA, CFE
Auditor General
Office of the Auditor General
P.O. Box 708
Window Rock, Arizona 86515



Dear Ms. Begay,

The Tsaile/Wheatfields Chapter is in receipt of your November 29, 2016 final draft of the Tsaile/Wheatfields Chapter's Cash Receipts Activities, and the Special Review of the Tsaile/Wheatfields Chapter's Cash Disbursement Activities. Pursuant to 12 NNC § 7A, we hereby provide the follow response to the final draft.

The Tsaile/Wheatfields Chapter provides the following response to the Special Review of the Cash Receipts Activities we provide the following response.

Introduction and Background: The Tsaile/Wheatfields Chapter is thankful that it specifies that the Chapter President requested the special review due to concerns, however we additionally request that it specifically states that the Chapter President and Community Service Coordinator requested a member of the Auditor Generals staff to be present as we uncovered additional discrepancies with the MIP owners ITG New Mexico, LLC, in an effort to show accountability on behalf of the Chapter President and Chapter Administration.

Finding I: The Tsaile/Wheatfields chapter requests the Auditor Generals office to be specific as to how the manipulation of the MIP software led to these issues in our initial response that was submitted in a letter dated November 14, 2016. In that letter there was an attached letter dated March 28, 2016 from Mr. Bill Jimenez, CPA of ITG New Mexico, LLC, to Zane James, Chapter President as evidence of the specifics of the manipulation of the MIP software. This letter was attached as "**Exhibit A**" for your reference. In addition we have another letter that was attached as "**Exhibit B**" that is dated May 5, 2016 from the same person that illustrates the manipulation of funds being input into the wrong line items, which has led to other financial issues. These exhibits were submitted in our initial response on November 14, 2016.

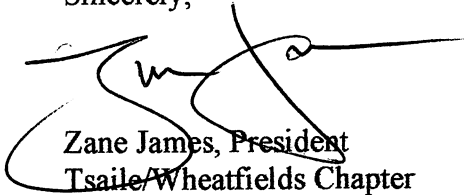
The chapter also suggests that the recommendation should include the Division of Community Development to enter into a contract with the MIP software company, ITG New Mexico, LLC, to develop specific deliverables of chapters and the software company. The chapter feels this will eliminate additional chapters encountering this same manipulation.

These are the same recommendations from the initial response memorandum and the chapter wishes to respond the same.

Finding II: The Tsaille/Wheatfields Chapter requests that recommendations be inclusive of the Division of Community Development. This request is a result of the chapter Community Service Coordinator no longer being under the direct supervision of the chapter officials.

In conclusion the Tsaille/Wheatfields Chapter officials and administration is appreciative of the Auditor General's response to our request for an audit of our chapter. We are very confident that the Auditor General's office will accept our response to the audit and review and reconsider the "Findings" in the initial audit. If you should have additional questions, please contact us at (928) 724.2220.

Sincerely,



Zane James, President
Tsaille/Wheatfields Chapter

Attachement

XC: David Kedelty, Vice President
Margie R.S. Begay, Secretary/Treasurer
Paula S. Begay, Community Service Coordinator
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