



OFFICE OF THE AUDITOR GENERAL

The Navajo Nation

A Second Follow-Up Review of the Whitecone Chapter Corrective Action Plan Implementation

**Report No. 20-11
September 2020**

**Performed by:
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September 24, 2020

Jonathan Lewis, President
WHITECONE CHAPTER
28 North Highway 77 PMB 5120
Holbrook, Arizona 86025

Dear Mr. Lewis:

The Office of the Auditor General herewith transmits audit report no. 20-11, a 2nd Follow-up Review of the Whitecone Chapter Corrective Action Plan Implementation.

BACKGROUND

In 2016, the Office of the Auditor General performed a Special Review of the Whitecone Chapter's Cash Receipts Activities and issued audit report no. 16-28. A corrective action plan was developed by the Whitecone Chapter in response to the special review. The audit report and corrective action plan (CAP) were approved by the Budget and Finance Committee on March 7, 2017, per resolution no. BFMA-08-17.

In 2018, the Office of the Auditor General conducted a CAP follow-up review and issued report no. 19-04 that concluded Whitecone Chapter did not fully implement its CAP as only 9 of 20 (40%) corrective measures were implemented to address the audit findings. On December 27, 2018, the Budget and Finance Committee approved, per resolution no. BFD-55-18, to impose sanctions on the Whitecone Chapter for failure to fully implement its CAP.

OBJECTIVE AND SCOPE

The objective of the 2nd follow-up review is to determine whether the Whitecone Chapter fully implemented its corrective action plan based on a six-month review period of July 1, 2019 to December 31, 2019. Our review was based on inquiries, review of records and audit test work.

SUMMARY

Of the 20 corrective measures, the Whitecone Chapter implemented 8 (40%) corrective measures, leaving 12 (60%) not fully implemented. See attached Exhibit A for the detailed explanation of our review results.

CONCLUSION

Based on the review results and the risks that remain as a result of the non-implementation, the Office of the Auditor General concludes the sanctions shall remain imposed on the Chapter and its officials pursuant to 12 N.N.C. Sections (b) and (c). Once the Whitecone Chapter fully implements its corrective action plan, all withheld funds will be released to the Chapter and the officials.

We thank the Whitecone Chapter staff and Officials for assisting in this 2nd follow-up review.

Sincerely,


Helen Brown, CFE, Principal Auditor
Delegated Auditor General

xc: Henry Attakai, Vice President
Lavida Maestas, Secretary/Treasurer
Sherry Dick, Community Services Coordinator
Elmer P. Begay, Council Delegate
WHITECONE CHAPTER
Sonlatsa Jim-Martin, Delegated Department Manager II
Eunice Begay, Senior Programs & Project Specialist
ADMINISTRATIVE SERVICE CENTER/DCD
Chrono

REVIEW RESULTS
Whitecone Chapter Corrective Action Plan Implementation
Review Period: July 1, 2019 to December 31, 2019

Audit Issues	Total # of Corrective Measures	# of Corrective Measures Implemented	# of Corrective Measures Not Implemented	Audit Issue Resolved?	Review Details
1. Former Community Services Coordinator shared user credentials with the Office Aide to record transactions in the accounting system.	3	2	1	Yes	See Attachment A
2. Cash reconciliations of the cash received to the cash register receipts and to the posted cash receipts were not performed prior to deposit.	1	0	1	No	See Attachment B
3. The deposit log was incomplete in recording all deposits to the bank.	9	6	3	No	
4. Collected cash receipts were not recorded daily in the accounting system.	1	0	1	No	
5. An adjustment recorded in the accounting system decreasing cash receipts in the amount of \$6,138.15 did not follow established policies and procedures.	4	0	4	No	
6. Former Community Services Coordinator had total control of the cash receipts.	1	0	1	No	
7. 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.	1	0	1	No	
TOTAL:	20	8	12	1 - Yes 6 - No	

WE DEEM CORRECTIVE MEASURES: **Implemented** where the Chapter provided sufficient and appropriate evidence to support all elements of the implementation; and **Not Implemented** where evidence did not support meaningful movement towards implementation, and/or where no evidence was provided.

◆ 2020 STATUS	Issue #1: Former Community Services Coordinator shared user credentials with the Office Aide to record transactions in the accounting system. RESOLVED
<p>The current Community Services Coordinator and Accounts Maintenance Specialist are set up with individual user credentials and there was no evidence that the current Chapter administrative staff are sharing their user credentials. This practice is consistent with the recommended policy offered by the MIP consultant.</p> <p>Lastly, although the Chapter officials have not established view-only credentials to access the accounting system, the officials receive hard copies of the Chapter financial reports generated from the accounting system to monitor the revenue and expenditure activities. With these improvements, the Chapter has reasonably addressed this finding and mitigated applicable risks.</p>	

<p>◆ 2020 STATUS</p>	<p>Issue #2: Cash reconciliations of the cash received to the cash register receipts and to the posted cash receipts were not performed prior to deposit. NOT RESOLVED</p>
<p>For the review period, cash receipts from internally generated revenues totaled \$16,554. The Chapter collected revenues from activities such as hay, water, shower, heavy equipment rental, and their Recreation Center operations. Although the Chapter reconciled the receipts with the cash register tapes and posted the receipts to the accounting system, cash receipts for the Chapter’s Recreation Center were not properly recorded, posted and reconciled.</p> <p>For the review period, the Chapter generated \$2,452 from the Recreation Center operations. Upon further inquiries, it was determined the Chapter administration was not applying its cash receipts policies and procedures for the Recreation Center activities. Consequently, the following control deficiencies were found with the Recreation Center cash receipt activities:</p> <ul style="list-style-type: none"> • Cash collected are taken home by the Recreation Center’s volunteer(s). • Revenues are turned in on a monthly rather than daily basis. • Cash receipts are not reconciled and posted daily in the accounting system by the Accounts Maintenance Specialist. • The volunteers are using the cash collected from the Recreation Center as petty cash to purchase cleaning supplies, groceries, laundry, gas, propane, and payment to themselves. • The Community Services Coordinator did not ensure all cash received were reconciled and posted to the accounting system. • Chapter Officials did not monitor the overall cash receipts activities. <p>Since the Chapter operates and oversees the Recreation Center, chapter policies and procedures should apply to these activities as well. In the absence of controls, the Chapter cannot provide reasonable assurance it fully accounts, safeguards and reports all revenues generated by the Recreation Center.</p>	
<p>◆ 2020 STATUS</p>	<p>Issue #3: The deposit log was incomplete in recording all deposits to the bank. NOT RESOLVED</p>
<p>For the cash receipts collected directly by the Chapter administration, the deposits of these receipts were all recorded on the deposit log. However, the deposits for the Recreation Center cash receipts were incomplete. For the review period, total cash receipts collected from the Recreation Center was \$2,452 but only \$403 was recorded as deposited. Therefore, \$2,049 was unaccounted for and the deposit log which was intended to record the deposits of all Chapter cash receipts was deemed incomplete.</p> <p>The Chapter also agreed to convert cash on hand to money orders as a corrective measure to address this finding. With money orders, the Chapter would not have to hold large amounts of cash on hand and minimize the risk for theft or misuse. However, the Chapter stopped converting cash into money orders as of November 13, 2019. The Community Services Coordinator stated the fee for money orders was getting costly for the Chapter and so the Chapter obtained a community approved resolution to stop this practice. For the six-month review period, the total cost of money orders was \$76 or about \$13 per month.</p> <p>Without money orders, the Chapter is maintaining an average of \$1,100 as cash on hand since it takes an average of 12 days between bank deposits. In comparing the cost to the average cash on hand, the benefits of using money orders outweighs the costs. The Chapter should reconsider using money orders or commit to make weekly bank deposits to prevent large cash on hand. Overall the risks for this finding have not been mitigated.</p>	

◆ 2020 STATUS	Issue #4: Collected cash receipts were not recorded daily in the accounting system. NOT RESOLVED
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The Chapter policies and procedures stipulate that all cash receipts collected will be recorded daily (i.e., same day). To adhere to this policy, the Chapter stops collecting cash receipts at 4 pm daily to allow staff to reconcile and post the cash receipts. A total of 423 cash receipts including Navajo Nation appropriations were examined and of this amount, 172 (or 41%) were recorded on the same day. The following table shows the number of days that elapsed before the cash receipts were recorded.

Number of Days Elapsed to Record and Post	Number of Cash Receipts Entered	Amount
0 (same day)	172	\$147,680
1	150	\$6,114
2	16	\$653
3	46	\$1,865
4	15	\$2,471
5	15	\$431
6	6	\$185
8	3	\$70
TOTAL	423	\$159,469

The remaining 251 (or 59%) cash receipts were recorded after 1 to 8 days elapsed after initial collection. Some of these were the Recreation Center cash receipts that were not properly accounted for; approximately 4 of 6 months of these activities were not accounted for in the Chapter's accounting system.

In addition, while posting cash receipts to the accounting system, it is important to use the correct general ledger codes to ensure accurate reporting of Chapter revenues. While verifying the cash receipts posting, we noted the following errors made by the Chapter administration:

- \$635 of Recreation Center revenue was recorded as unidentified revenue
- \$97 of hay revenue was recorded as water revenue
- \$642 of Recreation Center revenue was recorded as meeting hall/chairs/tables rental

The Chapter's chart of accounts had no revenue code for the Recreation Center operations which likely explains the posting errors. Nonetheless, the Recreation Center has been in operation and generating revenues since March 2017. Therefore, the Chapter had ample opportunities to define a revenue code to properly identify the source of these revenues.

Overall, this finding was not fully resolved, thus the risk that unrecorded cash receipts could be stolen and go undetected still exists.

◆ 2020 STATUS	Issue #5: An adjustment recorded in the accounting system decreasing cash receipts in the amount of \$6,138.15 did not follow established policies and procedures. NOT RESOLVED
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For the audit period, the Chapter posted a total of \$13,060 in cash receipt adjustments to the accounting system. Specifically, the Accounts Maintenance Specialist posted the following adjustments:

- Navajo Nation Stipend Allocation totaling \$12,084 was posted to the wrong fund code and an adjustment was needed for correction.
- Cash receipt for \$619 had to be adjusted to decrease for cleaning deposits.
- With the assistance of the MIP consultant, the cash drawer was adjusted to decrease the cash receipt in the amount of \$357.

These adjustments lacked supporting documentation and as a result, we could not determine if the adjustments were processed in accordance with established policies and procedures. Further, in the absence of documentation, there is still a risk that adjustments are being made to conceal missing cash receipts or other questionable activities.

◆ 2020 STATUS	Issue #6: Former Community Services Coordinator had total control of the cash receipts process. NOT RESOLVED
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To avoid any total control over a process, duties within the process need to be segregated to ensure proper checks and balances. Although there are at least three staff members involved in the Chapter's current cash receipt process, assigned duties are not clearly defined or being adequately performed to ensure proper accountability for all the cash receipts. Specifically, the following were noted:

- PEP workers and Recreation Center volunteers are allowed to access restricted areas and the chapter safe along with the Chapter administration contrary to cash receipt policies and procedures.
- Chapter administration do not closely monitor the cash receipt activities at the Recreation Center and the volunteers assigned to collect monies. Discrepancies and variances are not properly investigated.
- Chapter policies and procedures do not clearly define the roles of the PEP workers and volunteers with regards to cash receipts.
- Chapter administration are not reviewing subordinate's work for accuracy and completeness.
- When the Chapter administration is absent, other staff members including temporary staff, will perform the cash receipt procedures without segregating these duties.

Without effective segregation of duties over cash receipts, the Chapter cannot provide assurance it fully accounts for its cash receipts; the risk that cash receipts can be stolen or misused remains high especially for the Recreation Center.

◆ 2020 STATUS	Issue #7: 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. NOT RESOLVED
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Initially, the Chapter had a threshold of \$1,000 for the amount of cash receipts to maintain on hand at the Chapter house before a deposit is warranted. This threshold was raised to \$2,000 on February 18, 2019. The threshold increase was arbitrarily made by the Chapter as there are currently no policies and procedures that establish threshold amounts for cash on hand prior to deposits. The Community Services Coordinator explained the Chapter staff are unable to make bank deposits daily or on weekly basis due to the distance of the nearest bank which is approximately 50 miles from the Chapter house one way. To avoid repeated trips, the Chapter implemented its threshold policy.

For the review period, fourteen (14) deposits totaling \$16,562 were made and the deposits ranged from \$426 to \$2,448. The number of days between bank deposits ranged from 6-20 days. By arbitrarily increasing the cash on hand threshold and discontinuing the practice of converting cash to money orders, the Chapter has allowed itself to retain large amounts of cash on hand without routine bank deposits. These actions pose an increased risk for cash receipts to be stolen or misused and have such incidents go undetected in a timely manner. The Community Services Coordinator indicated that they will start making weekly deposits to comply with the Five Management System cash receipts policies and procedures.