

# Fraud Prevention for Chapters

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PRESENTATION BY: OFFICE  
OF THE AUDITOR GENERAL

# What is Fraud?

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Fraud is the intentional use of false or misleading information in an attempt to illegally deprive another person or entity of money, property, or legal rights.

# Who can commit fraud?

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1. Management
2. Employees
3. Elected Officials
4. Suppliers

# Types of Fraud

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Corruption-Dishonest or illegal behavior. The process of causing someone else to do something wrong.

Misappropriation of Assets-The act stealing the company's property or using it for personal gain.

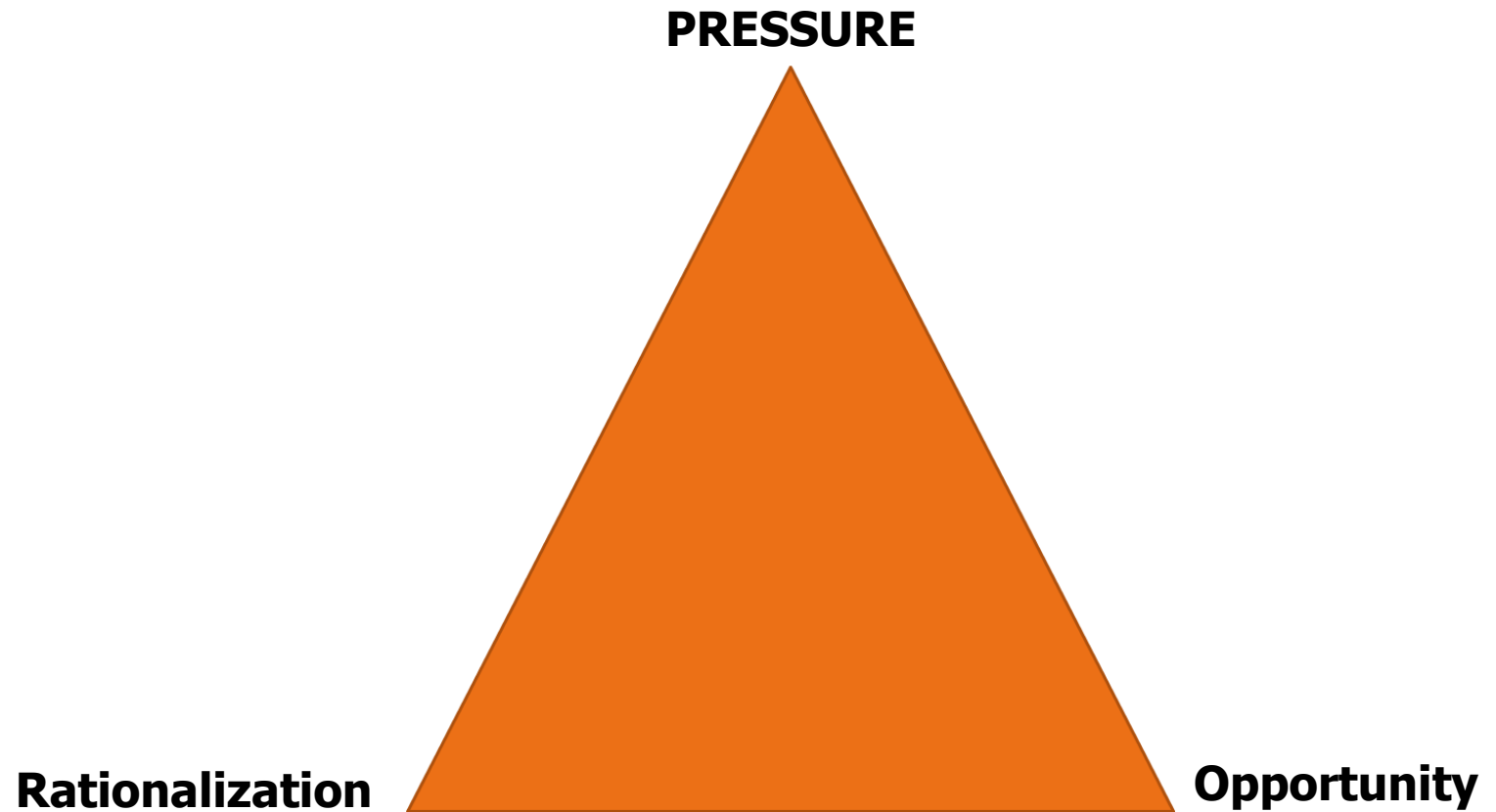
Financial Statement Fraud-A common method of deception in which a company's financial data is intentionally misrepresented in an effort to mislead people.

# The Fraud Triangle

Pressure – This is what causes a person to commit fraud. This includes expensive tastes, addiction problems, significant financial needs, etc.

Rationalization – It occurs when the individual develops a justification for their fraudulent activities. Some examples include: 1) I REALLY NEED THIS MONEY AND I WILL PAY IT BACK, 2) OTHER PEOPLE ARE DOING IT, 3) I DIDN'T GET A RAISE, THE NAVAJO NATION OWES ME.

Opportunity – Is the ability to commit fraud. This person believes their activities will not be detected. This can be created by WEAK internal controls, POOR management oversight, and through ABUSE of power.



# DETECTION

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- Tips
- Internal audit
- Management review
- By accident
- Account reconciliation
- External audit
- Document examination
- Surveillance/monitoring
- Notified by law enforcement
- IT controls
- Confession

# Fraud Indicators

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- ❖ Refusal to take vacation or sick leave
- ❖ Significant personal debt and credit problems
- ❖ Behavioral changes
- ❖ High employee turnover
- ❖ Lack of segregation of duties in vulnerable area
- ❖ Employee lifestyle changes
- ❖ Management decisions are dominated by officials
- ❖ Staff and/or officials display significant disrespect for regulatory bodies
- ❖ Policies and procedures are not documented or enforced
- ❖ Staff fearful to answer questions
- ❖ Unexplained missing property
- ❖ Excessive adjusting entries
- ❖ Excessive control issues and unwilling to share duties
- ❖ Typed or hand written checks
- ❖ Excessive purchases
- ❖ Checks issued for rounded amounts with no cents
- ❖ Weakened controls due to working from home

# How to Prevent Fraud

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1. Abide by the Chapter's FMS policies and procedures.
2. Abide by Navajo Nation laws, policies, rules and regulations.
3. Implement internal controls.
4. Hire qualified employees.
5. Avoid making payments in advance of delivery of goods



# Internal Controls

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## 1. Segregation of Duties

- Purpose-Splitting the duties between the CSC/CM, AMS, and Chapter Officials. To ensure not one person is performing all duties.
- Example-AMS receives cash, CSC reconciles and deposits cash, AMS verifies the deposit slip to the accounting system. The Secretary/Treasurer reviews the monthly financial statements and reconciles to the cash receipt documents.

## 2. Accounting system access controls

- CSC and Chapter Officials should have read-only access to the accounting system.

# Internal Controls Cont.

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## 3. Standardizing required documents

- Purchasing

1. Fund Approval Form
2. Invoice/receipts
3. Quotes
4. Receiving report

- Travel

1. Fund Approval Form
2. Travel Authorization Form
3. Trip report
4. Mileage report
5. Lodging receipts

# Internal Controls Cont.

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4. Periodic internal audits by Chapter/ASC
  - Cash count
  - Property and Equipment
  - Material (lumber)
  - Resale items (arts and craft, hay, wood, coal)
5. Periodic reconciliation
  - Bank reconciliations
  - Cash receipts
  - Financial statements
6. Approvals by appropriate authorities (CSC and Chapter Officials)

# Internal Controls Cont.

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## 7. Monitoring

- CSC over AMS
- Designated Chapter Official over CSC
- Secretary Treasurer over financial activities
- ASC over chapter operations

## 8. Financial Reporting

- CSC prepares financial statements for Chapter Officials to report at monthly chapter meetings.
- Chapter posts financial statements at the chapter or provides a copy to community member upon request.
- Chapter posts on webpage.

# What could happen if fraud occurs?

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## Impact

1. Loss of Navajo Nation, Federal, and state funds
2. Loss of service to community membership
3. Possible jail time for staff/officials
4. Loss of trust by constituents
5. Restitution payments
6. Loss of employment
7. Elected positions are penalized from any elected position for 5 years within the Navajo Nation

# Conclusion

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Internal controls generally provide the most actionable route to prevent fraud from occurring.

# Contact Information

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