



# Office of the Public Auditor

Commonwealth of the Northern Mariana Islands

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December 23, 1996

Mr. Augustin Camacho, Chairman  
CNMI Law Enforcement Week Committee, Inc.  
Saipan, MP 96950

Dear Mr. Camacho:

Subject: **Final Letter Report - Audit and Investigation of Funds Misappropriated By the Treasurer of the CNMI Law Enforcement Week Committee, Inc. (Report No. LT 96-07)**

In a meeting on August 28, 1996, you requested the Office of the Public Auditor to conduct an audit and investigation of funds allegedly misappropriated by the Treasurer of the CNMI Law Enforcement Committee, Inc. (LEWCI). The objective of our work was to determine the amount of the missing funds and whether the Treasurer misappropriated these funds belonging to LEWCI.

Our audit showed that LEWCI did not establish any written policies and procedures for the accounting of its funds which resulted in misappropriation of cash funds estimated to be about \$1,058.75 (**Appendix A**). The actual amount of missing funds, however, could not be ascertained because of inadequate collection records and supporting documents. On November 13, 1996, the Treasurer admitted that she used LEWCI's funds amounting to \$600 to purchase items needed for a family emergency. Accordingly, we recommend that the LEWCI Chairman (1) issue a memorandum officially relieving the Treasurer from her duties and requiring her to repay the \$600 that she admitted to having taken from LEWCI funds, and (2) establish written policies and procedures for the accounting and control of the collections and disbursements of LEWCI funds.

In his letter response dated November 26, 1996 (**Appendix B**), the Chairman of LEWCI agreed with our findings. Based on this response, the Chairman said he concurs with and will strictly adhere to all our recommendations as described above. Thus, all our recommendations were considered resolved; however, to close these recommendations, we need copies of the (1) memorandum or letter relieving the Treasurer of her duties and requiring her to repay the \$600, and (2) the written procedures and policies for the accounting and control of the collections and disbursements of LEWCI funds.

## **BACKGROUND**

On August 28, 1996, the LEWCI Chairman requested the Office of the Public Auditor to conduct an audit and investigation of funds allegedly misappropriated by the LEWCI Treasurer. The request was made during a meeting between the Public Auditor's staff and LEWCI Board of Directors to discuss missing funds that were entrusted to the LEWCI Treasurer. During the meeting, we were informed that a criminal case was filed by a Board member against the Treasurer for misappropriating funds amounting to more than \$1,600. However, the case was later withdrawn by the Chairman. The Chairman and the Board members wanted the Public Auditor to conduct an audit and investigation to verify the allegations against the Treasurer.

### ***CNMI Law Enforcement Week Committee, Inc.***

The CNMI Law Enforcement Week Committee, Inc., is a nonprofit corporation which was formed to promote public awareness and participation in the field of law enforcement. Accordingly, it aims to unite law enforcement agencies and to honor and recognize the services of all men and women in all law enforcement professions in the CNMI.

LEWCI is managed by a Board of Directors consisting of four persons elected by members who are employees of various government agencies with law enforcement functions, such as the Department of Public Safety, Attorney General's Office, and the Immigration and Naturalization Office. The Board selects a Chairman and other officials of the corporation.

Yearly, LEWCI conducts fund-raising activities and solicits contributions from members to fund its activities and award ceremonies carried out during national law enforcement week. All monies and collections are remitted to the LEWCI Treasurer who is responsible for depositing the funds to LEWCI's checking account with a local bank. Disbursements are made through checks payable to vendors or directly to members, who are assigned to purchase materials and food items needed during meetings and award ceremonies held by LEWCI.

## **OBJECTIVE, SCOPE, AND METHODOLOGY**

The objective of our audit and investigation was to determine whether the Treasurer misappropriated funds belonging to LEWCI and if so, the amount of the missing funds. The scope of our work covered all collections during the term of the Treasurer, from August 12, 1995 to August 28, 1996. Our procedures included a review and examination of the checking account records obtained by LEWCI from the Treasurer and other available documents provided by Committee members. Due to a general lack of receipts evidencing collections, we

relied on collection reports prepared by Committee members who were assigned to accept donations. We confirmed donations made by various government agencies and private companies to LEWCI. We also interviewed several Committee members knowledgeable about LEWCI activities, including the Treasurer.

## FINDINGS

### *Treasurer Admitted Misuse of LEWCI Funds*

Management should prepare adequate written policies and procedures to ensure that cash and related assets are protected from loss and the possibility of theft or misuse. Our review showed, however, that estimated cash funds of about \$1,058.75 could have been misappropriated. The Treasurer admitted that she misused \$600 due to a family emergency. The actual amount of missing funds, however, could not be ascertained because of inadequate records and supporting documents. This occurred because LEWCI did not establish adequate written policies and procedures to control collection and disbursement of funds. As a result, funds amounting to \$600 were specifically misused by the Treasurer and another \$458.75 could not be specifically accounted for.

#### Discussion

Adequate written policies and procedures should be in place to safeguard cash and related assets. These procedures should include proper documentation of cash receipts and payment of expenses, and accurate recording of transactions on a timely basis. In addition, persons with cash receipts functions, such as the Treasurer, should not be responsible for records. Another official, who is not involved in handling funds, should be in charge of records. This official should also be required to regularly report to the Board Chairman, who should review the details of reported financial transactions.

#### Missing Funds

Our review showed that estimated cash funds of about \$1,058.75 could have been misappropriated. Based on our analysis of available documents and information obtained from Committee members, total collections by LEWCI from August 12, 1995 to August 28, 1996 should have amounted to at least \$2,876.25. Bank records showed, however, that the Treasurer deposited only \$1,817.50. The difference of \$1,058.75 could have been misappropriated (See Appendix A).

The total amount of collections of \$2,876.25 was based, primarily, on collection reports and summaries of collections prepared by Committee members who were assigned to accept donations. The Committee members, however, did not always issue official receipts or prepare

documents to evidence collections from individual members. Further, the Treasurer did not acknowledge the amount of collections turned over to her by Committee members. Consequently, the total accountability of the Treasurer as well as Committee members cannot be firmly established.

On November 13, 1996, we interviewed the Treasurer regarding the allegations against her. During our interview, the Treasurer admitted that she borrowed money from the LEWCI fund. According to her, she used about \$600 to purchase items needed due to a family emergency and that she intended to repay the money. However, allegations were made about LEWCI funds being stolen before she could repay the \$600 (Note: the Treasurer, who was on an extended leave of absence since August 1996, resigned from government employment on November 5, 1996 for unrelated reasons).

### Lack of Controls

The above condition occurred because LEWCI did not establish adequate written policies and procedures to control collections as well as disbursements of funds. Issuance of official receipts was not required and the turnover of funds was not documented. Except for the checking account booklet, no accounting records were maintained to record cash receipts and disbursements. Further, the Treasurer was not required to prepare a detailed report of transactions (to the Board of Directors) on a regular basis. As a result, funds amounting to \$600 were specifically misused by the Treasurer and another \$458.75 could not be specifically accounted for.

## **CONCLUSION AND RECOMMENDATIONS**

LEWCI funds were misappropriated by the Treasurer. However, except for \$600 which the Treasurer admitted to have taken, the actual amount of missing funds cannot be firmly established because of the lack of controls over collections. Accordingly, we recommend that the LEWCI Chairman:

1. Issue a memorandum officially relieving the Treasurer from her duties and requiring her to repay the \$600 she admitted to have taken from the LEWCI fund (Note: The Public Auditor's Investigation Section will directly refer the matter to the Office of the Attorney General for possible prosecution).
2. Establish written policies and procedures to control collections and disbursements. This should include policies and procedures on (a) issuance of official receipts, (b) certification of funds turned over to the Treasurer, (c) maintenance of cash receipts and disbursement records, (d) assignment of cash handling and recording functions to different officials, and (e) regular reporting of financial transactions to the Board Chairman.

## LEWCI s RESPONSE

The Chairman agreed with our findings in his letter response dated November 26, 1996. The Chairman said he concurs with and will strictly adhere to all our recommendations, and policies and procedures will be implemented accordingly. He added that the Committee will work closely with the Attorney s General Office for whatever recommended action that will be taken against the Treasurer.

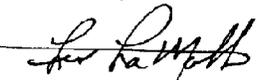
## OPA s COMMENTS TO THE RESPONSE

Based on the letter response, both recommendations were considered resolved; however, to close these recommendations, we need copies of the (1) memorandum or letter relieving the Treasurer of her duties and requiring her to repay the \$600, and (2) written policies and procedures for accounting and control of collections and disbursements of LEWCI funds.

\* \* \*

Our office has implemented an audit tracking system. All audit recommendations will be included in the tracking system until we have received sufficient evidence to consider the recommendations as closed. An open recommendation is one where no action or plan of action has been made by the auditee. A resolved recommendation is one in which the auditors are satisfied that the auditee cannot take immediate action, but has established a reasonable plan and time frame for action. A closed recommendation is one in which the auditee has taken sufficient action to meet the intent of the recommendation or we have withdrawn it.

Sincerely,



Leo L. LaMotte  
Public Auditor, CNMI

cc: Governor  
Lt. Governor  
10<sup>th</sup> CNMI Legislature (27 copies)  
Attorney General  
Secretary of Finance  
Special Assistant for Management and Budget  
Public Information Officer  
Press

Appendix A

CNMI Law Enforcement Week Committee, Inc.  
Schedule of Collections and Deposits  
August 12, 1995 to August 28, 1996

Collections (Estimates only)

Department of Immigration	\$ 630.00
Department of Public Safety	594.00
Department of Commerce	270.00
Department of Labor	225.00
Commonwealth Ports Authority	200.00
Solid Builders	200.00
Coastal Resource Management	150.00
Division of Revenue and Taxation	145.00
Sanitation	121.25
Triple J Motors	100.00
Quarantine	70.00
CJPA	30.00
Office of the Attorney General	30.00
Estimated Proceeds from Sale of T-Shirts	<u>111.00</u>
	<u>2,876.25</u>

Deposits

May 5, 1996	662.50
May 23, 1996	655.00
May 28, 1996	<u>500.00</u>
	<u>1,817.50</u>

Difference \$ 1,058.75



Commonwealth of the Northern Mariana Islands

Division of Environmental Quality

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November 26, 1996

Mr. Leo L. Lamotte  
Public Auditors, CNMI  
P.O. Box 1399  
Saipan, MP 96950

NOV 26 1996  
RECEIVED  
AB

**Subject: Comments on the draft letter report pertaining to the audit and investigation of funds allegedly misappropriated by the Treasurer of the CNMI Law Enforcement Week Committee, Inc.**

Dear Mr. Lamotte:

As Chairman of the 1996, CNMI Law Enforcement Week Committee, Inc. (LEWCI), I would like to inform you that I have received the draft letter report on November 22, and would like to provide you with my comments.

I agree with your findings that the \$458.75 can not be accounted for due to the fact that our committee entrusted the Treasurer in handling all the monetary collections and/or donations and not establishing procedures on documenting all collections and deposits to the local bank. If procedures were established, this matter could have been prevented. Even though the committee feel there should be more funds missing, it will be difficult and impossible to prove it without any receipts acknowledged by the Treasure receiving the collections.

It has always been the committees intention to take necessary action against the Treasurer should we have solid evidence that this is an intentional act committed by the LEWCI Treasurer. Your draft report stated that the Treasurer admitted and confessed that she misused \$600.00 of the funds for family emergency. I understand that the final version of this report will be forwarded to the Attorney Generals office for possible prosecution. We will work closely with the AG's office on whatever recommended action to be taken against the Treasurer.

I am hereby concurring that all recommendations listed on page four (4) of your draft report will be strictly adhered to and policies and procedures will be implemented accordingly. Your agency will be kept informed on status of the implementations of your recommendations.

If you need further information from me or any of the LEWCI committee members, please do not hesitate to call.

Sincerely,

Augustin Camacho  
Chairman, LEWCI

APPENDIX B -Response of LEWCI's Chairman to OPA's Recommendations