

TOWN OF HOMER



ADVISORY SERVICES REPORT
ISSUED DECEMBER 12, 2007

**LEGISLATIVE AUDITOR
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December 12, 2007

**HONORABLE DAVID NEWELL, MAYOR,
AND MEMBERS OF THE BOARD OF SELECTMEN
TOWN OF HOMER**

Homer, Louisiana

We received a request from Mayor Newell to review a questionable utility system (water and sewer) transaction. As a result of reviewing the questionable transaction, we expanded our examination for additional transactions within the utility system. We concluded that cash received from utility customers was missing and the missing cash was concealed by using a check substitution scheme. The following provides our findings relating to this matter.

Check Substitution Scheme (See Attachment 1 for Summary Schedule.)

We examined town records for June 1-11, 2007; July 1-31, 2007; and August 1-10, 2007, and found that a total of \$1,581 of cash collected from utility customers is missing. The actual payments received from utility customers during this period of time were more than the amounts deposited in the town's bank account by \$1,581. The missing cash was concealed by using a check substitution scheme as follows:

Checks and Cash

- Cash deposited was less than cash actually received (missing cash).
- Certain checks were received and deposited in the town's bank account but were not recorded in the utility system. These checks were substituted for the missing cash.
- Customer billing stubs that indicated cash payments were altered from "cash" received to "checks" received to balance to the daily transactions report.

Customer Billing Records

- When checks were substituted for missing cash, the customer billing records were deleted from the utility system to conceal the cash taken from the cash collections.
- The customer billing stubs accompanying these payments were missing, but the checks received were deposited.

Extent of Check Substitution Scheme

Although the scope of our examination of town records was generally restricted to the above mentioned dates, we reviewed certain town records and performed limited procedures outside of this time period. Our extended procedures revealed substantial

evidence of additional missing cash and that the check substitution scheme may have begun in May 2004 (inception of the present utility system).

Current Status

We provided details and supporting documents of the check substitution scheme to the District Attorney for the Second Judicial District of Louisiana as required by law. On October 25, 2007, the grand jury returned a *True Bill of Indictment* for theft over \$500 against the former town clerk. The district attorney has hired an independent investigator to determine the amount of missing cash from May 2004 through May 2007.

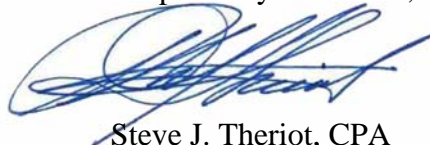
Recommendations

In addition, the mayor requested that we review the financial operations of the town to offer recommendations to improve the business practices and procedures established by prior administrations. We applied our *Checklist of Best Practices in Government* in providing these advisory services. Attachment 2 contains recommendations resulting from our assessment of the financial procedures and practices of the town's various departments, including recommendations to improve controls over utility system billings, receipts, and customer accounts receivable. Management's response is presented in Appendix A.

Our recommendations are intended to improve controls over financial operations, provide advice in implementing good business practices, and ensure compliance with state laws. However, management of the town should consider the costs of implementing our recommendations compared to the benefits they will provide.

This assessment is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards; therefore, we are not offering an opinion on the town's financial statements or system of internal control nor assurance as to compliance with laws and regulations.

Respectfully submitted,



Steve J. Theriot, CPA
Legislative Auditor

SCD:GLM:dl

Summary Schedule of Check Substitution Scheme

TOWN OF HOMER

Summary Schedule of Check Substitution Scheme

A Payment Transaction Date	B Payments Received			C Funds Deposited			D Missing Cash	E Altered Payment Stubs	F Deleted Customer Billings	G Adjusted Customer Billings	H Check Payments Received and Not Recorded
	Checks	Cash	Total	Checks	Cash	Total					
June 8, 2007	\$9,560.97	\$2,386.02	\$11,946.99	\$9,560.97	\$2,246.87	\$11,807.84	(\$139.15)	\$139.15	\$139.15	N/A	\$139.15
June 11, 2007	7,683.90	3,115.06	10,798.96	7,683.85	2,962.95	10,646.80	(152.16)	152.16	152.16	N/A	152.16
July 2, 2007	6,136.42	1,281.03	7,417.45	6,136.42	938.58	7,075.00	(342.45)	342.45	N/A	\$342.45	342.45
July 6, 2007	3,968.95	1,362.54	5,331.49	3,967.62	1,066.06	5,033.68	(297.81)	*297.88	297.82	N/A	297.82
July 9, 2007	13,024.78	3,182.58	16,207.36	13,025.43	2,811.98	15,837.41	(369.95)	*345.80	369.95	N/A	369.95
July 23, 2007	1,299.02	1,765.75	3,064.77	1,299.02	1,485.86	2,784.88	(279.89)	279.89	279.89	N/A	279.89
							(\$1,581.41)	*\$1,557.33	\$1,238.97	\$342.45	\$1,581.42

*Altered payment stubs differs from missing cash by \$.07 on 7/6/07 and by \$24.15 on 7/9/07 or a total of \$24.22.

Scope of Examination

Our examination included the following dates:

June 1-11, 2007; July 1-31, 2007; August 1-10, 2007

Explanation of Columns

A. Payment Transaction Date - Customer payment transaction date

B. Check Payments Received - Customers' check payments received by the town

C. Cash Payments Received - Customers' cash payments received by the town

D. Total Payments Received - Total customer utility payments (cash and checks) received by the town

E. Checks Deposited - Checks deposited by the town. These amounts do not agree with total checks received by the town and recorded in the utility system. The customer billing stubs were altered from "cash" received to "checks" received. This enabled her to balance the customer billing stubs "checks" to the amount of checks actually deposited.

F. Cash Deposited - Cash deposited by the town. These amounts do not agree with total cash received by the town and recorded in the utility system. Customer billing stubs were altered from "cash" received to "checks" received. This enabled her to balance the customer payment stubs "cash" to the amount of cash actually deposited, thus concealing the actual cash taken from the deposit.

G. Total Funds Deposited - Total customer utility payments (checks and cash) deposited by the town

H. Missing Cash - Difference between actual cash received by the town and actual cash deposited (more cash was received than actually deposited). The missing cash was removed from cash collections and replaced with a check(s) that was not recorded in the utility system (check substitution scheme).

I. Altered Payment Stubs - Total amount of customer payment stubs and receipts that were altered. The customer payment stubs were changed from "cash" received to "checks" received to conceal the amount of cash taken from the deposit (missing cash).

J. Deleted Customer Billings - Customer billing records deleted from the utility system. Billing records were deleted to conceal the cash taken from the cash collections. The customers payment stubs accompanying the payments are missing but the checks received were deposited. This made the customer payment stubs to support payments received agree to the amount of funds deposited on the deposit slip, which agreed to the amounts recorded as received in the utility system.

K. Adjusted Customer Billings - Customer billing records adjusted in the utility system. The billing records were not deleted, which is an exception to the general mode of operation in concealing cash taken from the cash collections. Although the customer paid her utility bill, the payment was not credited to the customer's account in the utility system. Therefore, the customer's purported unpaid bill was reported delinquent on a cut-off list. Upon notice of being cut-off, the customer paid her utility bill again (paid twice for the same bill). Later, the customer was able to provide her canceled check that showed payment of the bill. Rita Mitchell, Town Clerk, adjusted the customer's account to give her credit for paying the bill twice.

L. Check Payments Received and Not Recorded - Customers check payments received by the town. These checks were deposited, but were not recorded in the utility system. Although these customers were billed, their billing records were deleted in the utility system. Therefore, the customer payment was not recorded in the utility system. This allowed for these checks to be substituted for the cash that was taken from the cash collections.

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Recommendations

The following are the recommendations resulting from our advisory services. The recommendations are presented to improve the system of controls that provide for the safeguarding, managing, and accounting for assets of the town and to ensure compliance with applicable state laws. However, management of the town should consider the costs of implementing these recommendations compared to the benefits they will provide. For those recommendations not implemented, management should be aware of the risks of not implementing such controls.

Management's response to the recommendations is included in Appendix A.

Plan for Future Operations

The town does not have a formal plan for both short- and long-term spending to ensure it will operate within its available funding and maintain a reasonable fund balance/net assets for the General and Utility Funds.

Recommendation: We suggest that management:

1. Develop and adopt an operating plan that includes both short- and long-term goals/objectives
2. Monitor the plan, at least quarterly, to assess whether the town is on target with the plan
3. Use the plan in decision-making process and for budgeting (e.g., projects to undertake, major purchases, contracting)
4. Monitor the financial statements and budget monthly to ensure that operations are within the available funding and that a reasonable fund balance/net assets is being maintained

Organization Chart

The town does not have an organization chart that shows the lines of authority and responsibilities of all employees.

Recommendation: An organization chart should be prepared that shows in graphical form the way work is distributed in the town and clearly show direct supervisor - subordinate relationships. The organization chart should show job titles and employee names for each position and be updated periodically to reflect changes in personnel.

Written Policies and Procedures

The town's written policies and procedures are not complete. Formal written policies and procedures provide a clear understanding of what should be done, how it should be done, who should do it, and when it should be done and ensure the procedures followed meet management's expectations. Also, written policies and procedures aid in the continuity of operations and for cross-training staff.

Written Policies - We recommend written policies for the following:

1. *Financial reporting* - Section 10 of the town's charter requires the treasurer to keep an account of all receipts and disbursements and to make monthly reports of the condition of the treasury. The policy should provide that these financial statements, with budget comparisons, be presented and discussed during regularly scheduled public meetings.
2. *Capital assets* - A policy is necessary for establishing the dollar thresholds to record the purchase of movable property in the official accounting records, along with policies addressing tagging (identifying) and accounting for (inventorying) these assets.
3. *Records retention* - State law [Louisiana Revised Statute (R.S.) 44:36] requires the town to exercise diligence and care in preserving public records. In compliance with this law and in accordance with R.S. 44:411, the town should adopt a policy of maintaining public records, including e-mail communications, and report this policy annually to the state archivist (Louisiana Secretary of State) for approval.
4. *Travel* - The mayor informed us that the town is in the process of adopting a formal travel policy. We commend the mayor for recognizing the need to adopt a formal travel policy and suggest that the state's travel policy be used as a guide in developing the policy.
5. *Unauthorized Software* - Turbo Tax software was installed on one of the town's computers by a town employee. This software was subsequently deleted. A policy should be adopted that prohibits installing unauthorized software on town computers. Town computers/equipment should be used for town business and not for personal use or gain.

Written Procedures - We recommend written procedures for the following:

1. Preparing, adopting, monitoring, and amending the budget
2. Preparing customer water and sewer bills, including reading water meters
3. Receiving and distributing incoming mail
4. Receiving, recording, and preparing deposits for cash receipts

5. Collecting customer payments for water and sewer bills
6. Enforcing the town's cut-off policy for water and sewer services
7. Billing and collecting occupational licenses
8. Issuing city building permits
9. Storing, issuing, and accounting for traffic and misdemeanor tickets/citations
10. Investing excess cash, including procedures for ensuring that bank balances and investments are fully secured and that the types of securities pledged by the financial institutions are appropriate
11. Purchasing materials and supplies, including:
 - How purchases are initiated
 - Use of purchase requisitions
 - Types of requisitions (capital assets, supplies, travel, et cetera)
 - Approval process for requisitions
 - Preparation and approval process of purchase orders
 - Checks and balances to ensure compliance with the public bid law and the documentation maintained for all bids and price quotes
 - Dollar thresholds that are lower than the public bid law where competitive quotes should be obtained to ensure the most favorable prices
12. Processing, reviewing, and approving disbursements
13. Adding and deleting vendors to/from the vendor list
14. Using credit cards (e.g., Wal-Mart), monitoring the monthly statements, and filing expense reports supporting credit card charges
15. Accounting for the use of fuel cards (Fuelman and Emerson Oil) and monitoring the weekly statements
16. Processing, reviewing, and approving time/attendance records and payroll, including leave taken and overtime worked
17. Recording, tagging, and safeguarding capital assets, including conducting physical inventories
18. Controlling and monitoring inventories (e.g., materials and supplies)

19. Monitoring contracts to ensure that services received comply with terms and conditions of the contracts
20. Preparing and administering the municipal-wide street maintenance program, to include forms used in administering the program
21. Backing up and storing computer files off-site and general controls for the computer system
22. Implementing a disaster recovery/business continuity plan (includes computer system and continued operations/functions of the town)

Budgeting

Budget Message - The 2007 budget did not include a budget message as required by state law. R.S. 39:1305 (C)(1) requires a budget message signed by the budget preparer that includes a summary description of the proposed financial plan, policies, objectives, assumptions, budgetary basis, and a discussion of the most important features.

Recommendation: The town should include a budget message in future budgets. We also suggest that an overall financial status of the town be included in the budget message that includes the current financial status, the short-term outlook, and the long-term trends. The emphasis on this analysis should be understandability of the financial status and issues not necessarily on exact numbers and detail. This analysis should be provided in written form, early in the budget process, so a broad financial framework is available to management of the town.

Performance Measures - Performance measures are not incorporated into the budgeting process. Meaningful performance measurements assist management of the town by (1) identifying financial and program results; (2) evaluating past resource decisions; (3) facilitating qualitative improvements in future decisions regarding resource allocation; and (4) communicating service and program results to the taxpaying public.

Recommendation: The town should consider incorporating performance measures into the budgeting process. Performance measures should be used to report on the outputs of each program and should be related to the objectives of each department.

Revenue/Receipts

Incoming Mail - Checks received by mail are not listed on a daily receipts log and restrictively endorsed before they are given to the town clerk or other appropriate employee for processing.

Recommendation: All checks received by mail (except for water/sewer and property tax payments) should be listed on a daily receipts log and restrictively endorsed and then given to the town clerk for deposit and entry into the accounting system. The daily receipts log should be given to the person that reconciles the bank accounts to verify deposits made during the bank reconciliation process.

Checks received for water/sewer and property tax payments should be restrictively endorsed and then given to the appropriate employee responsible for entering payments into the system. Listing these payments on the daily receipts log is not necessary as there should be other controls in place to ensure that the payments are deposited and recorded in the accounting records.

Checks and Balances - There is no segregation of duties for the receipt and subsequent deposit and recording of town funds. For example, the utility clerk performs a variety of duties without proper checks and balances. The utility clerk (1) sets up new utility accounts; (2) enters meter readings into the utility system; (3) makes meter reading adjustments to the system; (4) prepares utility bills; (5) collects and posts payments to customer accounts; (6) and prepares the bank deposit. Also, more than one employee uses the same cash drawer to collect payments.

Good business practices and proper controls over cash received requires that more than one individual be involved in the billing, collecting, and recording of receipts. Separating the duties of billing, collecting cash, and recording the transactions in the accounting system would provide controls to help ensure that no single employee controls all facets of the process.

Recommendation: Where possible, the town should segregate the duties of billing, receiving, and recording receipts into the accounting system. The town has enough employees to work toward providing adequate checks and balances. This can be achieved by clearly defining employee duties, limiting employee access to specific functions, restricting the ability of employees to record transactions in the accounting system, and providing overall oversight of these functions. We suggest the following:

General

- Use two multi-function cash registers with multiple cash drawers to record all receipts (e.g., utility collections, meter deposits, property taxes, building permits, occupational licenses, franchise taxes, airport rental, auditorium rental, and cemetery plots). The cash registers should be programmed to identify each type of receipt. Also, the daily transaction report (Z report) from the cash registers should be balanced daily with the checks and cash received for the day. (This will provide an accounting of all checks and cash received.)
- Assign an employee(s) the responsibility to use each cash register to receive payments. These employees should not have access to billing records or recording transactions in the accounting system. Each cash register should be accessed by the employee by using a password. In the event the person is not available, an alternate employee should be able to access the cash register using his/her own password and separate cash drawer. (Each employee is held accountable for any shortages in a cash drawer or possible theft of funds.)
- Verify that all checks and cash received as documented on the cash register transaction report agree to the amount of funds deposited.

Water and Sewer System

- Restrict access to the water and sewer (utility) system:
 - Require each employee to have his/her own password to access the system.
 - The employee that inputs the customer meter readings should not have access to receiving and recording receipts into the utility system.
 - Customer meter readings should be adjusted, when properly approved, only by the town clerk.
 - Do not allow any employee the ability to delete billing records. (Incorporate this into the utility software system.)

Bank Deposits

- Verification of bank deposits:
 - The town clerk should verify that the cash register tapes agree to the bank deposits each day and ensure that the cash drawers for each register is balanced to the predetermined cash amount.
 - For the utility fund (water and sewer payments), the town clerk should verify each day that the cash register tapes, customer payment stubs, payments entered into the utility system, and bank deposit all agree.

Recording Receipts

The town clerk should make the appropriate entries into the accounting system to record the receipts and ensure that the supporting documentation (cash register tapes, utility customer payment stubs, utility system payments receiving report, and other remittance advices) is properly maintained.

Physical Security/Restricted Access - The physical layout of the cash collection area and business office needs modifications to ensure that collections are secure, routine accounting functions are not interrupted, and physical access is only allowed to authorized personnel. Presently, the door to the business office is located in the center of the two collection windows and is not always locked. Town employees and other town residents entering the business office could be disruptive to the business office employees and impact their job duties.

Recommendation: The town should:

- Seal the door located between the two collection windows and make a new access door for the business office in the next office where records are now stored

- Build a countertop along the entire front of the business office that will accommodate the cash registers and other appropriate equipment necessary for receiving funds and transacting business with town customers
- Allow access to the business office to only authorized personnel or expected town visitors

Water and Sewer Accounts Receivable

Reconciling Accounts Receivable - The accounts receivable balance in the accounting system (general ledger) is not reconciled with the accounts receivable balances in the detailed utility (water and sewer) customer listing each month.

The reconciliation of these two independent records each month is very important and essential to a good system of controls over customer accounts receivable. As of September 30, 2007, the general ledger (accounting system) receivable balances for the customer receivables was \$180,685; and the balance reported in the detailed customer receivable listing was \$176,217, a difference of \$4,468.

Recommendation: The town clerk or outside accountant should reconcile these two separate records each month and any difference should be investigated and resolved in a timely manner. In addition, we suggest that the town integrate the accounting system with the utility system to enhance controls over utility receivables and eliminate the need to reconcile these two separate records.

Delinquent Utility Accounts - The town's cut-off policy provides that if customers do not pay their bill on or before the fifteenth day of the month, the town may immediately discontinue the services. As of September 26, 2007, utility (water, sewer, and garbage) accounts past due totaled \$23,963.

The continued operation of the utility system and the quality of service provided to customers depends on the town collecting for the services it provides. Continuing to provide services to these customers after the cut-off date affects the quality of services provided and jeopardizes the continued operation of the utility system. In addition, giving free water and sewer services violates Louisiana's constitution (Article VII, Section 14 of the Louisiana Constitution of 1974).

Recommendation: The town should:

- Enforce the town's cut-off policy to ensure that nonpaying customers' service is discontinued
- Require the town clerk/mayor to review the accounts receivable aging report at least monthly to ensure compliance with the cut-off policy
- Take aggressive action to collect delinquent accounts, including legal action when necessary, and use a collection agency

Inactive Utility Accounts - Monitoring compliance with the town's cut-off policy is very important and having inactive accounts (customers that no longer receive services) intermingled with active customer accounts makes this process very difficult. As of September 26, 2007, there were 489 accounts totaling \$43,163 that were inactive.

Recommendation: The town should:

- Identify all customers that no longer receive services
- Prepare a listing of these customers to include the amounts owed the town and the date of last payment received
- Present the listing to the selectmen during a public meeting for their information and approval to remove these accounts from the active customer file
- Write off the inactive accounts from the accounting system (general ledger) and move these inactive accounts to an inactive status in the utility system (review inactive accounts before reconnecting or opening new customer accounts for balances due the town)
- Take aggressive action to collect these inactive accounts, including legal action and using a collection agency
- Require that a list of all future inactive accounts be provided periodically to the selectmen during a public meeting for their information and approval to remove from the active customer file (after approval, follow the procedures above)

Customer Meter Deposits - The customer meter deposit bank account balances and customer deposit liability account balance in the accounting system (general ledger) is not reconciled with the detailed listing of customers' meter deposits (subsidiary ledger) each month. Management of the town has a fiduciary responsibility to properly account for customer meter deposits.

Recommendation: The town should reconcile the customer meter deposit subsidiary ledger to the related general ledger bank account balances and customer deposit liability on a monthly basis. Any differences should be investigated and resolved in a timely manner.

Property Taxes

The town does not record the property taxes assessed as an accounts receivable in the accounting records. Reconciling the detailed listing by property owner to the accounting records is a control feature as these two records should agree at all times.

Recommendation: The town should:

1. Require the town clerk to record the property taxes receivable in the accounting records when the tax assessment roll is received from the assessor's office

2. Require the town clerk to reconcile each month the property tax receivable in the accounting records to the balances still due as documented on the tax assessment roll; document this reconciliation process and retain in the records of the town
3. Consider having the tax collector for the parish (parish sheriff) collect this tax for the town and remit collections received, less the fee for collecting, to the town

Occupational Licenses

The town may not be collecting all occupational licenses due from businesses operating within town limits. The town is currently using the telephone book to determine businesses operating within the town. Also, businesses are not audited to determine if the correct occupational license fee is being remitted to the town.

Recommendation: The town needs to maintain a reliable list of businesses operating within town limits. We suggest, as a starting point, that the town use the monthly *Sales Tax Receipts Listing* provided by the Claiborne Parish School Board (sales tax collector for the parish) to compile a list of all businesses paying sales taxes and operating within the town. In addition, utility “turn-ons” should be used as another step to ensure that all businesses are identified. Formal written procedures should be developed and implemented for the following:

- Mailing initial notification of license renewal to licensees
- Receiving all license payments
- Printing and mailing all licenses
- Processing and recording license payments
- Preparing deposits for occupational license tax receipts
- Collecting delinquent occupational license taxes
- Maintaining the list of businesses operating within town limits
- Identifying new business
- Selecting businesses for audit

In addition, we suggest that the town consider the cost/benefit of using an outside vendor to collect this license for the town and remit collections received, less the fee for collecting. Currently, the town uses the Louisiana Municipal Advisory and Technical Services Bureau, Inc., (LaMATS) to process and collect insurance premium taxes. LaMATS is a wholly owned subsidiary of the Louisiana Municipal Association (LMA). Among other things, LaMATS can also process and collect fees for occupational licenses.

Swimming Pool Fees

There is no clear accounting of swimming pool fees collected during the summer and deposits were not made timely. Monies collected at the pool were turned into town hall for deposit approximately every two weeks.

Recommendation: The town should implement controls to account for the number of swimmers and amount of monies collected, such as issuing tickets and completing a ticket reconciliation form each day. Monies collected should be deposited or dropped in the bank's night depository daily. Another alternative would be to contract out managing the swimming pools.

Purchasing and Disbursements

Checks and Balances - Good controls over purchasing and disbursements require that more than one individual be involved in the purchasing and disbursement functions. Separating the duties of purchasing materials and supplies, paying vendors, recording the transactions in the accounting system, mailing payments to vendors, and reconciling the bank statements would provide controls to help ensure that no single employee controls all facets of the process. In our initial review, there were limited checks and balances over purchasing and disbursements.

Because of the recent changes in personnel and job duties within the business office, some of these duties have been segregated by Mayor Newell. In addition, we commend the mayor for implementing procedures to obtain all monthly bank statements directly (unopened) from the bank for review by the finance committee director. The director ensures that deposits appear reasonable and that any unusual disbursements are identified. This procedure strengthens controls over cash.

Recommendation: With the recent changes in personnel and job duties within the business office, now would be a good time for the town to make sure that the duties of purchasing, paying vendors, recording the transactions in the accounting system, mailing the payments to vendors, and reconciling the bank statements are segregated, where possible.

Proper Controls for Disbursements - Our review of payments to vendors revealed that appropriate documentation to support the payments was not always available. Purchase requisitions, purchase orders, receiving reports, and approvals were not always included with the paid vendor invoice.

Proper controls for paying vendors require that appropriate documentation is available before payment is made for those services provided or materials received. Documentation to support payments should include the following:

- Purchase requisition - submitted by the department requesting the purchase and approved by a designated town official (the town is presently not using a purchase requisition)

- Purchase order - prepared by the town clerk who verifies that funds are budgeted and available and that the purchase is in compliance with the public bid law (approved by a designated town official)
- Receiving report - evidence from the town employee receiving the materials/supplies that they were actually received
- Invoice - evidence from the vendor of the services or materials provided
- Approval of invoice - verified by the approver that documentation is present to support the payment and the amount owed is correct

Recommendation: The town should:

1. Require that all supporting documentation is included before payment is approved. Approval should mean that all appropriate documentation is available and the amount owed is correct
2. Require that check signers review the supporting documentation for completeness before signing town checks
3. File the paid vendor invoice and supporting documents together (do not separate the supporting documents into separate files)

Recurring Purchases and Large Purchases - Although we did not find violations of the public bid law, obtaining quotes when purchasing recurring or large items ensure that goods and services are obtained at the most favorable prices.

Recommendation:

1. Price quotes should be obtained when purchasing recurring or large items (e.g., gravel, asphalt, and office supplies) to ensure that the most favorable prices are obtained.

We suggest that quotes be documented as part of the approval process before the purchase is made for recurring or large purchases. The town should be aware of Louisiana's bid law requirements when purchasing materials and supplies. Louisiana's bid law requires competitive bids for all purchases of materials and supplies exceeding \$20,000. In addition, the public bid law requires that purchases between \$10,000 and \$20,000 be made by obtaining at least three telephone or facsimile quotations. The Louisiana Attorney General (A.G.) has opined in A.G. Opinion No. 02-122 that recurring purchases (individual purchases not exceeding the dollar thresholds of the bid law) may require to be bid if in the aggregate they exceed the bid limit amount.

2. Review annually all items purchased frequently and consider requesting bids for such items to ensure the lowest possible prices and to ensure compliance with the

bid law. Also, this would be a more efficient way to purchase these items as price checks or quotes would not be necessary each time an order is placed.

3. Purchase orders should include a “check-off” for items requiring bids or fax/telephone quotes as a control to ensure compliance with the bid law.

Bid Documentation - Although we did not find instances where the town did not comply with the bid law, the supporting documentation was not filed in an orderly manner.

Recommendation: Documentation should be maintained in a bid folder that includes, at a minimum, the following:

- Bid notification letters that include the contract, plans, and specifications
- Documentation that bids were properly advertised
- Bid opening documentation including tabulation sheet and indication of selected bid
- Copies of town minutes
- Notification to purchasing department of bids accepted to ensure that purchase requisitions/purchase orders agree to bid amounts

Computerized Purchase Order System - The town uses a manual purchase order system that does not account for the numerical sequence of purchase orders issued or prevent issuing purchase orders when funds are not budgeted or available.

Recommendation: Although the town clerk should verify that funds are budgeted and available and that the purchase will comply with the public bid law before issuing a purchase order, a computerized purchasing system should be considered that would prevent a purchase order from being issued when funds are not budgeted or available.

Timely Payments - Vendor invoices are not always paid timely, resulting in vendors charging the town late charges. For example, Fuelman charged the town a late fee and finance charges totaling \$249 for the September 2007 vendor invoice.

Paying vendor invoices late results in misusing public funds and creates an atmosphere that the town is unable to pay its bills or manage town resources entrusted by its taxpayers.

Recommendation: The town should require that vendor invoices be paid timely by establishing time tables to pay all outstanding vendor invoices. We suggest that bills be paid every two weeks. In addition, a list of all unpaid bills documenting the invoice amount, invoice date, and due date should be provided to the mayor and selectmen at each public meeting.

Petty Cash - The town's petty cash fund documentation did not adequately document payments made and lacked proper approval. Also, payments normally expected to be made from the normal accounts payable process were made from the petty cash fund.

We presented these matters to Mayor Newell and commend him for implementing controls to resolve these issues. The mayor has implemented procedures to correct these deficiencies. Standardized forms are now used to document the items purchased, reason for making the purchase, person making the disbursement, and approval for the disbursement. In addition, the mayor has restricted the use of the petty cash fund to small dollar items necessary to continue operations of the town (e.g., maintenance supplies).

Payroll

Controls Over Payroll - The treasurer performs a variety of duties related to payroll disbursements that are incompatible for a proper system of checks and balances. Without supervisory review, the treasurer (1) records the payroll data in the accounting system (enters hours worked for all employees); (2) adds and deletes employees in the payroll system and makes all changes to the payroll; (3) prepares and prints payroll checks; (4) distributes checks; and (5) reconciles the bank account.

Recommendation: Accounting responsibilities should be segregated so that no single individual controls all facets of the payroll function. Also, someone independent of payroll should compare the payroll checks to the payroll register and employee time reports to determine that pay rates and hours worked by employees each pay period are correct.

Overtime Policies

- The town's personnel policies do not address compensatory time, but do provide that hourly employees shall receive overtime pay at one and one half times their base rate. Hourly employees are given the option of being paid at one and one half times their base rate of pay or earning compensatory time at one and one half times the overtime hours worked.
- The town's personnel policy allows salaried employees to be paid overtime at a rate of one-third their base rate for each hour worked over forty hours in a workweek. However, salaried employees are paid one and one half times their base rate of pay for each hour worked over forty hours.

Recommendation: The mayor and selectmen should address the town's overtime policies relating to the earning of compensatory time. Also, the policy for paying overtime to salaried employees should be revised or require that the policy of paying one-third their base rate for each hour worked over forty hours be adhered to.

Overtime Approval - Overtime hours claimed by business office employees lacked proper approval and in many instances did not provide adequate documentation for the reason for working overtime.

We presented these matters to Mayor Newell and commend him for implementing controls to resolve these issues. All overtime is now approved before being worked and is properly documented before payment is made to the employee.

Payroll Changes - A review of all changes made (adding/deleting employees, increasing/decreasing pay rates, et cetera) to the payroll system for a specific period of time is not performed.

Recommendation: A computer-generated payroll report of all changes made to the payroll system between pay periods should be verified to the approved authorization forms by someone independent of the payroll function.

Bank Deposits/Investments

Excess cash is not invested and procedures are not in place to ensure that bank balances and investments are fully secured as required by Louisiana law. Also, the types of security pledged by the town's fiscal agent bank are not reviewed to ensure that they comply with state law.

Recommendation: Excess cash should be invested and pledged security notifications should be reviewed monthly to ensure that bank balances and investments are adequately secured and that the types of securities pledged comply with state law.

Capital Assets

The town does not maintain a detailed listing of capital assets. Good controls over capital assets require that (1) detailed asset records be current; (2) every asset includes a tag identifying it with a number that can be cross-referenced to the detailed asset records; and (3) a physical inventory be conducted at least on an annual basis. In addition, R.S. 24:515(B)(1) requires the town to maintain records of all land, buildings, improvements other than buildings, equipment, and any other capital assets, which were purchased or otherwise acquired. The records should include information as to the date of purchase of such property or equipment and the initial cost.

Recommendation: First, we suggest that the town conduct a physical inventory, tag all assets belonging to the town, and create a detailed asset listing including a description, location, and the department each asset is assigned to. Second, management should designate an employee to manage the capital assets and develop procedures to (1) update the detailed listing when assets are purchased or disposed; (2) ensure all assets are tagged and appropriately cross-referenced to the detailed listing; (3) take periodic physical inventories and account for all differences to management; (4) reconcile the detailed listing to the general ledger control account monthly; and (5) add/delete vehicles on the town's insurance policy.

Ethics

The town's ethics policy could be strengthened by requiring an annual certification letter from selectmen and other members of management attesting to their compliance with the ethics policy.

Gasoline/Diesel

The town needs to improve controls over gasoline/diesel purchases. The police and public works departments use Fuelman for gasoline and diesel purchases while the fire department uses Emerson Oil. Although records are maintained that document the number of gallons of fuel dispensed, the odometer readings are not always accurately recorded for each vehicle. In addition, the public works director is filling up all public works vehicles on a single Fuelman card. Therefore, the miles traveled and miles per gallon information reported for by the Fuelman and Emerson Oil systems are not accurate.

Recommendation: The town should:

- Account for all fuel cards and ensure that Fuelman/Emerson Oil cards are used for assigned vehicles only (each vehicle should be assigned a card)
- Require department directors to review monthly fuel usage statements to ensure accurate odometer readings are reported and review for reasonableness, the dates of use, gallons purchased, miles traveled, and miles per gallon information reported on the statements (the police chief is presently performing this function for police department vehicles)
- Require employees to enter correct odometer readings when fueling vehicles
- Document the disposition of all missing and/or erroneous odometer readings on the monthly statements
- Require that check signers review the supporting documentation mentioned above for completeness before signing town checks paying for the fuel

Street Maintenance - Work Order System

The public works department does not use a formal *Work Order System* to document street maintenance performed. Work orders are relayed by memo or phone messages from town hall. Each morning the public works foreman schedules street maintenance work to be completed by his workers. No system is in place to report to town management the planned maintenance work and the progress in meeting that plan.

Recommendation: We suggest that the public works department use a *Complaint Form* to accumulate maintenance requests. The foreman of the public works department should review

the requests to determine if work should be done. If the foreman approves the work request, a *Work Order* form should be completed. In addition to work orders prepared from complaint forms, work orders should be prepared for other regularly scheduled street maintenance. The foreman should then complete a *Weekly Work Schedule* from the work orders. This schedule is used to organize the work to be done, keep track of the work being done, and monitor the work progress.

The foreman should report weekly to town management the planned maintenance work and the progress in meeting that plan. An example of specific forms and policies/procedures for a simple street maintenance - work order system can be found on our Web site at www.la.state.la.us/GovernmentAssistance/BestPractices.

Traffic/Misdemeanor Tickets

The police chief maintains a manual listing of all ticket books issued to officers and each citation issued. However, we found the following deficiencies:

- The computerized traffic/summons' system does not allow for the accounting of the numerical sequence of citations issued. Without accounting for the numerical sequence of tickets, there is no way to determine whether tickets were issued, lost, or voided.
- There is a lack of segregation of duties as the police department secretary/dispatcher is the sole employee involved in inputting the tickets in the computerized traffic/summons' system. She also updates the system for fines paid and collects fines and prepares bank deposits.
- Fines collected by the police department are not deposited timely. Deposits are made one to two times each month.
- Police officers have access to the computerized traffic/summons' system when the secretary/dispatcher is not present.

Recommendation: The town should:

- Acquire computerized software that will account for the numerical sequence of all citations issued and the final disposition of those citations monthly
- Separate the functions of record keeping for citations and collecting fines and preparing deposits
- Require that fines collected be deposited daily
- Limit access to the computerized traffic/summons' system only to authorized individuals by using appropriate security measures

Disaster Recovery and Business Continuity

We recommend that a formal written disaster recovery/business continuity plan be prepared and tested/revised annually. Having a formal written plan is a good business practice as it will provide the steps to be performed to continue town operations in the event of a natural disaster, fire, or terrorist attack.

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Management's Response

TOWN OF HOMER

DAVID M. NEWELL
MAYOR

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December 10, 2007

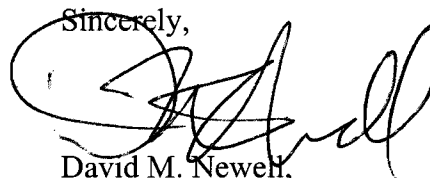
Mr. Steve J. Theriot, CPA
Legislative Auditor
State of Louisiana
PO Box 94397
Baton Rouge, LA 70802

The Town of Homer appreciates the timely response we received from your office when I contacted them to request assistance in the investigation of employee activities. My office received a report from one of our residents stating she had paid a water bill and it did not get credited to her account. While I understand that human mistakes happen, I had other reports of instances which led me to believe that fraudulent activities may be taking place. Your response was immediate and very professional. I commend the effort.

We look forward to continuing our work with your office to establish current policies, procedures and best business practices for our Town.

Again, I want to thank you for the services of your office.

Sincerely,



David M. Newell,
Mayor

TOWN OF HOMER

DAVID M. NEWELL
MAYOR

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December 1, 2007

Mr. Steve J. Theriot, CPA
Legislative Auditor
State of Louisiana
PO Box 94397
Baton Rouge, LA 70802

The Legislative Auditors were requested by Mayor David M. Newell to audit the Town of Homer in an investigatory as well as an advisory capacity to assess the Town's policies, procedures and business practices which were implemented by prior administrations. This assessment was requested to provide recommendations in all areas that need to be reformed or improved, and will be used by the current administration to restructure the organization and management policies of the Town of Homer.

Many of the areas of the Town's management and operations which need to be addressed are in the process of correction. Due to the time and effort which will be required to improve all practices citywide, management feels it may take up to a year to complete the entire process.

Following is management's response to the findings by category:

CHECK SUBSTITUTION SCHEME:

The Town Clerk was immediately placed on Administrative leave without pay and terminated effective September 17, 2007. The theft was reported to the Claiborne Parish DA's office which is currently investigating the extent of the theft. A Grand Jury indicted the former clerk. She has sued the Town for violating her rights and the Town has reconvened for damages, return of money stolen, return of overtime pay fraudulently taken, return of wages paid while the clerk prepared tax returns for personal clients at work and other matters to be decided at trial.

PLAN FOR FUTURE OPERATIONS:

The Town has purchased new accounting software and is running it parallel with our current system. The new system will be in service in 2008. The budget for 2008 has been adopted with a budget message included. A five year capital improvement plan will be developed and implemented. A monthly running budget will be put in place in 2008 to monitor revenues and expenses.

ORGANIZATIONAL CHART:

A detailed organizational chart is being developed. Upon approval, the chart will be distributed to all town employees. Expected completion date is December 14, 2008.

**J.C MOORE, District 1 ; MICHAEL J. WADE, District 2 ; TONEY JOHNSON , District 3 ;
CARLETTE SANFORD, District 4 ; PATRICIA K. JENKINS, District 5**

WRITTEN POLICIES AND PROCEDURES:

The Town is actively researching policies and procedures. We expect that all policies and procedures will be put in place by June 2008.

POLICIES:

1. Financial reporting - a written policy will be developed through research and using the Best Practices in Government as a guideline.
2. Capital Assets – a written policy is being researched and will be developed.
3. Records Retention – the town will develop a records retention policy using the guidelines provided by the LA State Archives Records Management Department and submit it to the state archivist for approval.
4. Travel – We are currently developing a written policy using the guidelines of the state's travel policy.
5. Unauthorized Software – a policy will be developed on computer use. This policy will address all aspects of computer usage. In addition to a written policy, controls have been put in place that will prohibit any employee to install any program, not authorized by administration, to be installed on any town computer.

PROCEDURES:

The Mayor's office is currently writing procedures for all aspects of city business. Implementing these procedures may take up to a year. Currently we have redistributed job duties. Cashier's no longer share a cash drawer and log in under their own id's to post payments. A daily report has been developed and each cashier is responsible for filling a report and attaching it to their daily transaction list which will be checked by the supervisor. The customers who do not pay their bill on time are being cut-off. If there is theft of utilities by customers, they will be sent for prosecution. Miscellaneous codes have been setup in the UD System to post payments other than utility payments. Occupational license renewals have been mailed out by the town for 2008, and we will research having the LMA collect future occupational licenses. Beginning 2008, police tickets and citations will be collected at city hall thru our cashiers. A purchasing policy and procedure will be developed and programs will be research to automate this process. Charge codes will be on the purchase orders at time of purchase.

BUDGETING:

A budget message for 2008 has been prepared and included with the presentation of the budget, and performance measures will be incorporated into our future financial budgets.

REVENUE / RECEIPTS:

Revenue codes have been developed and all checks will be posted into our computer system to be accounted for. When posting is not possible, a deposit report will be prepared, checks will be copied along with the deposit slip and turned in each day. These reports will be reconciled with bank records.

CHECKS AND BALANCES:

Duties are being segregated as much as possible. Job descriptions are being developed and policies being put in place. The cashier no longer opens daily mail. The utility billing clerk no longer posts payments unless absolutely necessary. Program login ID's and rights are being redefined, and once completed, employees will no longer be able to access the utility billing system controls unless authorized. By turning in a daily report, management will be able to verify all transactions. Cash drawers will be audited on a regular basis.

PHYSICAL SECURITY / RESTRICTED AREA:

Currently the door into the office is kept locked and only authorized personnel is allowed access to the cash area. The town will develop plans and get prices on changing the configuration of the cash collecting office. The cost of this project will dictate when this will be completed.

WATER AND SEWER ACCOUNTS RECEIVABLE:

Several changes have been implemented in this area. All recommendations will be implemented in a timely fashion. Bills have been sent out for delinquent closed accounts, those that do not pay will be turned over to a collection agency. The cut-off list is being enforced and those residents not being billed for town services are being added to the system and back billed for their usage per month. We are currently reconciling meter deposit records. We are applying deposits to closed accounts with outstanding balances and refunding customers in a timely manner.

PROPERTY TAXES:

The town is currently collecting property taxes. The Mayor's office has been in contact with Claiborne Parish Sheriff to inquire about an intergovernmental agreement for future taxes. The Sheriff's office will definitely consider giving the town a proposal for 2008 for the cost. Other avenues of collecting will be researched throughout the year. For the current year, a spreadsheet has been created and will be reconciled with the tax roll received from the assessor's office.

OCCUPATIONAL LICENSES:

The Mayor's office is researching occupational licenses collection through the LMA. If the town elects to continue collecting these fees through our business office, policies and procedures will be put in place. Business listing will be compared to the Parish tax collectors office rolls and fees will be collected accordingly. Delinquent taxes will be identified and legal actions will be taken on those businesses that do not pay in a timely manner. We are researching ways to create miscellaneous codes in our UD System to post these payments.

SWIMMING POOL FEES:

The town's swimming pools are currently closed for the winter. Upon reopening, a new payment system will be implemented, (i.e., a membership fee) or possibly contracting for the management of the facility to a different organization.

PURCHASING AND DISBURSEMENTS:

Job duties have been separated. Purchasing is done by one person and another person takes care of Accounts Payable. Purchase orders are required prior to any purchase being made, except for emergency situations. Department heads or their supervisors are the only ones that can approve purchases. Purchasing programs are being researched for future implementation. Policies and procedures are being developed for purchasing, the State bid law requirements will be implemented into these policies and procedures.

TIMELY PAYMENTS:

The town has implemented a policy of "no late fees" unless the invoice is not approved for payment, balances should be paid in full unless other payment arrangements have been made. Accounts payables are currently being run every two weeks with payroll. An Accounts Payable list will be included in Agenda packets at the monthly council meeting for selectmen to review before approving the payment of monthly invoices.

PETTY CASH:

The petty cash fund balance was decreased to a \$100. Petty Cash vouchers have been implemented and the fund is used strictly for small necessary items that do not fall under the normal accounts payable run.

PAYROLL:

Accounting responsibilities will be segregated so that no single individual controls all facets of payroll. Checks and balances will be put in place and all recommendations by your office will be implemented to the best of our ability. Policies for overtime and compensatory time will be established by mid 2008.

BANK DEPOSITS / INVESTMENTS:

The finance director will review investments and pledged security notifications to ensure that all are properly secured and comply with state law.

CAPITAL ASSETS:

The Mayor's office is currently revamping the entire filing system which will include all capital assets. Files will be made for each capital asset, including location, description, identification number and any other necessary information. The town will research a tagging system for these items.

ETHICS:

An ethics policy will be implemented following the State ethics policy and requirements. Every town employee will be required to sign off that they have received and agree to comply with this policy.

GASOLINE / DIESEL:

A fuel policy is being researched and will be implemented. In the interim, stricter controls for each department are in place to monitor fuel usage.

STREET MAINTENANCE – WORK ORDER SYSTEM

The mayor's office is currently researching a work order system that will be used for all aspects of town business, not limited to streets.

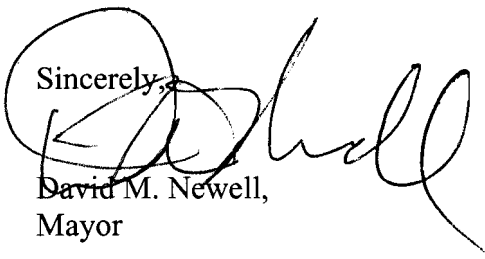
TRAFFIC/MISDEMEANOR TICKETS:

Research is currently being done for new software for the police department. The town is looking at software that is not limited to just tracking tickets, but also includes reports, court dockets, bench warrants, etc. Payments of fines and tickets will be moved to Town Hall and all deposits made daily with all other town deposits. Computer controls will be put in place with the new system that will limit access to only authorized users.

DISASTER RECOVERY AND BUSINESS CONTINUITY:

A disaster recovery plan is being researched. Our goal is to have a formal plan of action tested and put into place by mid 2008.

Thank you for your service to the Town of Homer. All of your recommendations will be implemented in a timely manner to the best of our ability.

Sincerely,

David M. Newell,
Mayor

DMN/bjl