

TOWN OF EVERGREEN



COMPLIANCE AUDIT

ISSUED OCTOBER 18, 2006

**LEGISLATIVE AUDITOR
1600 NORTH THIRD STREET
POST OFFICE BOX 94397
BATON ROUGE, LOUISIANA 70804-9397**

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October 18, 2006

HONORABLE DREW ROBERT, MAYOR
TOWN OF EVERGREEN
Evergreen, Louisiana

We have audited certain transactions of the Town of Evergreen (Town) in accordance with Title 24 of the Louisiana Revised Statutes. Our audit was performed to determine the propriety of certain transactions relating to water and sewerage revenue and accounts receivables.

Our audit consisted primarily of inquiries and the examination of selected financial records and other documentation. The scope of our audit was significantly less than that required by *Government Auditing Standards*; therefore, we are not offering an opinion on the Town's financial statements or system of internal controls nor assurances as to compliance with laws and regulations.

The accompanying report presents our findings and recommendations as well as management's response. Copies of this report have been delivered to those parties as required by state law.

Respectfully submitted,

Steve J. Theriot, CPA
Legislative Auditor

DP:JM:DGP:dl

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During the period May 2000 through August 2005, Mr. Gerald Riche, former water department superintendent for the Town of Evergreen (Town), reduced water billings by 35,356,975 gallons by improperly adjusting beginning meter readings. Mr. Riche's adjustments caused the Town to under bill its customers \$63,656 for water and sewerage use. In addition, Mr. Riche or his family members were the recipients of \$930 of water and sewerage services free of charge. Town employees also received \$937 of water and sewerage services free of charge.

Billing Adjustments

The Town supplies water and sewerage to approximately 700 businesses and residents. Customers who reside inside the Town are charged for sewerage based on their water consumption. Customers who reside outside the Town limits are not part of the Town's sewerage system and are not assessed a sewerage fee.

Before his resignation in August 2005, Mr. Riche was responsible for:

- (1) entering beginning and ending water meter readings into the Town's utility billing system;
- (2) preparing customer billings;
- (3) mailing customer bills;
- (4) receiving customer payments;
- (5) posting customer payments; and
- (6) depositing customer payments into the bank.

Because of this unfettered access to the process, Mr. Riche was able to adjust customers' meter readings by increasing the current month's beginning balance higher than the previous month's ending balance. These adjustments resulted in customers paying a reduced water and sewerage bill.

Records obtained from the Town's computer system indicate that during the period May 2000 through August 2005, Mr. Riche reduced approximately 650 customer bills by a total of 53,228,235 gallons. Reductions totaling 17,871,260 gallons appear to be for legitimate reasons such as meter replacement, incorrect meter readings from the previous month, or leaks. The remaining reductions totaling 35,356,975 gallons are questionable.

As a result of the questionable reductions, the Town failed to collect \$63,656 in water and sewerage revenue. Of that amount, \$930 was reductions to accounts owned by Mr. Riche or his family members. An additional \$937 in reductions was for accounts owned by Town employees.

In a written statement, Mr. Riche stated that he adjusted customer meter readings by increasing the current month's beginning balance higher than the previous month's ending balance. Mr. Riche also stated he adjusted his daughter's water and sewerage billings because

she needed to save money. Furthermore, Mr. Riche stated he adjusted family and friends' billings if he thought they needed a break or if he believed they were being overcharged.

During the period May 2000 through August 2005, Mr. Riche adjusted his daughter's water and sewerage account by \$838.48 and his own account by \$91.50. During this same period, Mr. Riche adjusted town employees' accounts, including Mayor Drew Robert, Mr. Wilson Moses, and Ms. Gladys Sprinkle, water and sewerage accounts by \$56.48, \$421.76, and \$458.66, respectively. Mayor Robert, Mr. Moses, and Ms. Sprinkle stated they were unaware of Mr. Riche reducing their water and sewerage accounts.

Records obtained from the Town's computer system indicate that from August 2005, Mr. Riche's departure, to July 2006 there has been a considerable drop in the number of water and sewerage adjustments. According to Mr. Moses, water superintendent, since Mr. Riche's departure, the Town has experienced an increase in water and sewerage revenue. After Mr. Riche's departure, the Town's water and sewerage revenue during the period September 2005 through June 2006 totaled \$205,288.45. During the same months the previous year, the Town's water and sewerage revenue totaled \$184,307.81. For the periods analyzed, the Town has experienced an increase in water and sewerage revenue of \$20,980.64 (11.38%) since Mr. Riche's departure.

The Town should implement policies and procedures to prevent employees from adjusting utility bills without approval from the mayor or board. This action should also require implementing periodic computer training and computer controls to reduce the likelihood of similar occurrences in the future. The Town should also seek restitution from Mr. Riche and others as deemed appropriate.

Computer System

The Town does not have properly trained employees operating its computer system. Mr. Riche was responsible for all computer-related activities and was the only Town employee capable of operating the computer system. After his departure, no other Town employee was properly trained to operate the computer system. Since new Town employees are not afforded computer training, they do not operate the computer system properly.

In addition, Town employees improperly record adjustments to customer accounts. Adjustments to customer accounts for errors and corrections are recorded as cash payments when no cash is collected. The recorded cash payment results in a reduction to the account. Each adjustment is documented so that it is not included with the cash deposits since no cash was actually collected.

The Town does not assign unique customer numbers. All customers are assigned a customer account number based on their address. When a customer moves out, the customer number associated with that address is assigned to the customer that moves in making it extremely difficult to track customer payments and customer history.

We recommend the Town train employees to effectively and efficiently operate the computer system. We also recommend that the Town cease allowing employees to enter bogus cash transactions to adjust customer billings. We further recommend that the Town cease recycling customer numbers and assign unique ones.

Segregation of Duties

The Town has improper segregation of duties as it relates to water and sewerage billings. The Town has two employees who are responsible for the following:

- Entering water meter readings into the Town's utility billing system
- Preparing customer billings
- Mailing customer bills
- Receiving customer payments
- Posting customer payments
- Depositing customer payments into the bank

Accounting procedures require segregating duties related to authorizing transactions, recording transactions, and having custody of assets. No one employee should have job responsibilities that fall into two or more of these procedures. Since the Town has a limited number of employees, the mayor and board of aldermen must take a greater role in the daily operations of the Town to ensure proper segregation of duties or alternative control.

Uncollectible Accounts Receivable

The Town does not have policies and procedures for disconnecting delinquent accounts and collecting on delinquent accounts. We recommend the Town implement policies and procedures to disconnect delinquent accounts. We also recommend the Town implement collection policies and procedures for delinquent accounts. These policies and procedures should:

- (1) indicate when accounts are deemed delinquent;
- (2) specify procedures to disconnect delinquent accounts;
- (3) specify procedures for reconnecting accounts;
- (4) establish guidelines for referring delinquent accounts to a collection agency;
- (5) require all write-offs be approved by the mayor or the board; and
- (6) ensure all write-offs are properly documented.

Accounts Receivable Reconciliation

Records from the Town indicate the subsidiary accounts receivable balance does not equal the general ledger balance. In addition, there are no procedures that require reconciling the subsidiary accounts receivable to the accounts receivable general ledger. The Town should implement policies and procedures that require the reconciliation of the subsidiary balances to the general ledger balances at least monthly.

Cash Reconciliation

The Town does not have policies or procedures that require reconciling bank deposits to postings to customer accounts. The Town should implement policies and procedures that require daily reconciliations of bank deposits to postings.

This report has been provided to the District Attorney for the Twelfth Judicial District. The actual determination as to whether an individual is subject to formal charge is at the discretion of the district attorney.¹

¹ **Louisiana Revised Statute 14:67** provides, in part, that theft is the misappropriation or taking of anything of value which belongs to another, either without the consent of the other to the misappropriation or taking, or by means of fraudulent conduct, practices, or representations.

Louisiana Revised Statute 14:134 provides, in part, that malfeasance in office is committed when any public officer or public employee shall (1) intentionally refuse or fail to perform any duty lawfully required of him, as such officer or employee; (2) intentionally perform any such duty in an unlawful manner; or (3) knowingly permit any other public officer or public employee, under his authority, to intentionally refuse or fail to perform any duty lawfully required of him or to perform any such duty in an unlawful manner.

Louisiana Revised Statute 42:1461(A) provides, in part, that officials, whether elected or appointed, by the act of accepting such office assume a personal obligation not to misappropriate, misapply, convert, misuse, or otherwise wrongfully take any funds, property or other thing of value belonging to the public entity in which they hold office.

Article 7, Section 14 of the Louisiana Constitution provides, in part, that except as otherwise provided by this constitution, the funds, credit, property, or things of value of the state or of any political subdivision shall not be loaned, pledged, or donated to or for any person, association, or corporation, public or private.

The Town of Evergreen was incorporated in April 1872. The Town operates under a Mayor-Board of Alderman form of government and provides services as authorized by its charter.

The Legislative Auditor received information that the former water superintendent improperly adjusted water and sewerage billings. The procedures performed during the compliance audit consisted of:

- (1) interviewing Town employees and others as appropriate;
- (2) examining selected Town records;
- (3) performing analytical tests; and
- (4) reviewing applicable state laws and regulations.

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Management's Response



Town of Evergreen

P. O. Box 85
Evergreen, Louisiana 71333

September 25, 2006

Office of Legislative Auditor
State of Louisiana
P.O. Box 94397
Baton Rouge, LA 70804-9367

Dear Mr. Theriot:

In reference to the compliance audit report, the Town of Evergreen has implemented the following:

1. The Town will develop a policy on utility adjustments in the next 60-90 days. The policy will take into account legitimate adjustments, such as faulty meters or incorrect readings. Each month, Superintendent Moses will prepare a report to present to the Council for requests made by customers for adjustments. Council will consider each request and act accordingly. Adjustments will only be granted for legitimate reasons, and credit will be given on the next month's bills.

After meter readings are entered, a usage report is generated. Superintendent scans report for abnormal consumption amounts. Each month, this report will also be reviewed by the Council. The Town is installing meters on the wells to monitor consumption by developing ratios on the amount pumped and the amount sold. After consideration of known losses due to leaks or Town usage, this report will allow the Council to monitor usage each month.

2. Current Clerk is receiving training from the software vendor and other clerks in the area using the utility software. Mr. Moses is trained to enter usage readings into the system. Additional training will be provided as needed.

3. During training, the Clerk has been instructed on proper methods to record adjustments. As noted previously, all adjustments will be approved by the Council BEFORE they are entered. Adjustments will not be entered as "cash adjustments."

4. Unique customer numbers are now being assigned.

5. The Town will implement, to the extent possible, controls designed to ensure proper segregation of duties. The Town recognized that adequate segregation will be difficult with a limited number of employees. Accordingly, the Town will implement the following:

- A. The Superintendent will be responsible for entering utility readings and approved adjustments in the system and process the billing.
- B. The Clerk will enter all payments and prepare deposits.
- C. A member of the Council will review and approve the payments and deposits.
- D. A report detailing monthly billings, collections, and outstanding balances will be presented to the Council.

6. The Town has policies and procedures in place for disconnecting delinquent customers. By the 20th day of the month after service is billed, delinquent customers will be disconnected. The customer will be required to come Town Hall and the bill must be paid in full in order to reconnect service, plus a reconnect fee.

The Council is working on a program to turn over uncollectable accounts to a collection agency for further action. Any write-offs will be presented to the Council, and adequate documentation will be maintained.

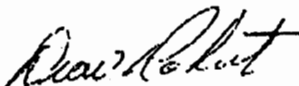
7. The Clerk has received training in the utility software to run the reports required to reconcile receivables to the general ledger. The Town's bookkeeper will then be instructed to ensure that the subsidiary ledgers are reconciled. The Council will review each monthly reconciliation and ensure that receivables are properly stated.

8. A batch report will be prepared daily for all deposits received. The batch report will be reconciled to the deposit. A council member will also review the reports to ensure deposits are reconciled to customer accounts postings.

The Mayor and Council of the Town of Evergreen has implemented these policies and procedures in an effort to properly ensure the accounting and billing systems operations.

Thank you for your cooperation in this matter.

Sincerely,



Drew Robert
Mayor

DR/tmk